

OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

In the Matter of:)

COMPLAINT OF TIME WARNER, INC.,)
ET AL., CONCERNING PERIODICAL)
RATES)

Docket No. C2004-1

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ORIGINAL

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Complaint of Time Warner Inc. et
al. Concerning Periodicals Rates

Docket No. C2004-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION

Party

Interrogatories

American Business Media

Lou Bradfield (ABM-T-2)

American Business Media

Direct Testimony Lou Bradfield (ABM-T2)

TW, Conde Nast, Newsweek, RDA,
and TV Guide

TW et al./ABM-T2-1-2, 4-8, 10

Response to POIR No. 3 and Corrections of
Exhibit LB-1, ABM-T2

Nicholas Cavnar (ABM-T-1)

American Business Media

Direct Testimony Nicholas Cavnar (ABM-T-1)

TW, Conde Nast, Newsweek, RDA,
and TV Guide

TW et al./ABM-T1-1-2, 4-12

Joyce McGarvy (ABM-T-3)

American Business Media

Direct Testimony Joyce McGarvy (ABM-T-3)

TW, Conde Nast, Newsweek, RDA,
and TV Guide

TW et al./ABM-T3-1-2, 4-11, 11b, 12-16

Response to POIR No. 3 and Corrections of
Exhibit LB-1, ABM-T3

Institutional

TW, Conde Nast, Newsweek, RDA,
and TV Guide

TW et al./ABM-1-10, 12-18, 28-55, 57-59, 65-70

PartyInterrogatories**McGraw-Hill Companies, Inc., The****David Schaefer (MH-T-1)**

McGraw-Hill Companies, Inc., The
 TW, Conde Nast, Newsweek, RDA,
 and TV Guide

Direct Testimony David Schaefer (MH-T-1)

TW et al./MH-T1-1-10, 12-15

United States Postal Service

TW et al./MH-T1-3, 5, 7-8, 10, 13

Institutional

TW, Conde Nast, Newsweek, RDA,
 and TV Guide

TW et al./MH-1-5, 7-15

National Newspaper Association**R. Douglas Crews (NNA-T-2)**

National Newspaper Association

Direct Testimony Douglas Crews (NNA-T-2)

TW, Conde Nast, Newsweek, RDA,
 and TV Guide

TW et al./NNA-T2-1-10

Max Heath (NNA-T-1)

National Newspaper Association

Direct Testimony Max Heath (NNA-T1)

TW, Conde Nast, Newsweek, RDA,
 and TV Guide

TW et al./NNA-T1-1-8

Institutional

TW, Conde Nast, Newsweek, RDA,
 and TV Guide

TW et al./NNA-1, 3-4

TW, Conde Nast, Newsweek, RDA, and TV Guide**Halstein Stralberg (TW et al.-T-2)**

United States Postal Service

USPS/TW et al.-T2-27

PartyInterrogatories**Institutional**

Postal Rate Commission

Response to POIR No. 1, Question No.2

U.S. News & World Report, L.P.**Michael John Armstrong (USNews-T-1)**

American Business Media

ABM/USNews-T1-1-14, 16

U.S. News & World Report, L.P.

Direct Testimony Michael John Armstrong
(USNew-t-1)

United States Postal Service

ABM/USNews-T1-1-6, 8-10, 14, 16

United States Postal Service**Michael W. Miller (USPS-RT-1)**TW, Conde Nast, Newsweek, RDA,
and TV Guide

TW et al./USPS-RT1-1, 3c, 4-10

United States Postal Service

Direct Testimony Michale W. Miller (USPS-

Rachel Tang (USPS-RT-2)TW, Conde Nast, Newsweek, RDA,
and TV Guide

MPA/USPS-RT2-1-7

TW et al./USPS-RT2-1-4, 6-25
Response to POIR No. 2

United States Postal Service

Direct Testimony Rachel Tang (USPS-RT-2)

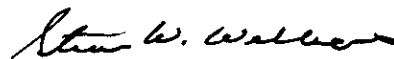
PartyInterrogatories**Institutional**

TW, Conde Nast, Newsweek, RDA,
and TV Guide

TW et al./USPS-2

TW et al./USPS-RT1-2, 3a-b, 11 redirected to
USPS

Respectfully
submitted,

A handwritten signature in black ink, appearing to read "Steven W. Williams".

Steven W. Williams
Secretary

INTERROGATORY RESPONSES
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
<u>American Business Media</u>	
Lou Bradfield (ABM-T-2)	
TW et al./ABM-T2-1	TW et al.
TW et al./ABM-T2-2	TW et al.
TW et al./ABM-T2-4	TW et al.
TW et al./ABM-T2-5	TW et al.
TW et al./ABM-T2-6	TW et al.
TW et al./ABM-T2-7	TW et al.
TW et al./ABM-T2-8	TW et al.
TW et al./ABM-T2-10	TW et al.
Direct Testimony Lou Bradfield (ABM-T2)	ABM
Response to POIR No. 3 and Corrections of Exhibit LB-1, ABM-T2	TW et al.
Nicholas Cavnar (ABM-T-1)	
TW et al./ABM-T1-1	TW et al.
TW et al./ABM-T1-2	TW et al.
TW et al./ABM-T1-4	TW et al.
TW et al./ABM-T1-5	TW et al.
TW et al./ABM-T1-6	TW et al.
TW et al./ABM-T1-7	TW et al.
TW et al./ABM-T1-8	TW et al.
TW et al./ABM-T1-9	TW et al.
TW et al./ABM-T1-10	TW et al.
TW et al./ABM-T1-11	TW et al.
TW et al./ABM-T1-12	TW et al.
Direct Testimony Nicholas Cavnar (ABM-T-1)	ABM
Joyce McGarvy (ABM-T-3)	
TW et al./ABM-T3-1	TW et al.
TW et al./ABM-T3-2	TW et al.
TW et al./ABM-T3-4	TW et al.
TW et al./ABM-T3-5	TW et al.

InterrogatoryDesignating Parties**McGraw-Hill Companies, Inc., The****David Schaefer (MH-T-1)**

TW et al./MH-T1-1

TW et al./MH-T1-2

TW et al./MH-T1-3

TW et al./MH-T1-4

TW et al./MH-T1-5

TW et al./MH-T1-6

TW et al./MH-T1-7

TW et al./MH-T1-8

TW et al./MH-T1-9

TW et al./MH-T1-10

TW et al./MH-T1-12

TW et al./MH-T1-13

TW et al./MH-T1-14

TW et al./MH-T1-15

Direct Testimony David Schaefer (MH-T-1)

TW et al.

TW et al.

TW et al., USPS

TW et al.

TW et al., USPS

TW et al.

TW et al., USPS

TW et al., USPS

TW et al.

TW et al., USPS

TW et al.

TW et al., USPS

TW et al.

TW et al.

McGraw-Hill

Institutional

TW et al./MH-1

TW et al./MH-2

TW et al./MH-3

TW et al./MH-4

TW et al./MH-5

TW et al./MH-7

TW et al./MH-8

TW et al./MH-9

TW et al./MH-10

TW et al./MH-11

TW et al./MH-12

TW et al./MH-13

TW et al./MH-14

TW et al./MH-15

TW et al.

TW et al.

TW et al.

TW et al.

TW et al.

TW et al.

TW et al.

TW et al.

TW et al.

TW et al.

TW et al.

TW et al.

TW et al.

TW et al.

InterrogatoryDesignating Parties**National Newspaper Association****R. Douglas Crews (NNA-T-2)**

TW et al./NNA-T2-1

TW et al.

TW et al./NNA-T2-2

TW et al.

TW et al./NNA-T2-3

TW et al.

TW et al./NNA-T2-4

TW et al.

TW et al./NNA-T2-5

TW et al.

TW et al./NNA-T2-6

TW et al.

TW et al./NNA-T2-7

TW et al.

TW et al./NNA-T2-8

TW et al.

TW et al./NNA-T2-9

TW et al.

TW et al./NNA-T2-10

TW et al.

Direct Testimony Douglas Crews (NNA-T-2)

NNA

Max Heath (NNA-T-1)

TW et al./NNA-T1-1

TW et al.

TW et al./NNA-T1-2

TW et al.

TW et al./NNA-T1-3

TW et al.

TW et al./NNA-T1-4

TW et al.

TW et al./NNA-T1-5

TW et al.

TW et al./NNA-T1-6

TW et al.

TW et al./NNA-T1-7

TW et al.

TW et al./NNA-T1-8

TW et al.

Direct Testimony Max Heath (NNA-T1)

NNA

Institutional

TW et al./NNA-1

TW et al.

TW et al./NNA-3

TW et al.

TW et al./NNA-4

TW et al.

TW, Conde Nast, Newsweek, RDA, and TV Guide**Halstein Stralberg (TW et al.-T-2)**

USPS/TW et al.-T2-27

USPS

InterrogatoryDesignating Parties**Institutional**

Response to POIR No. 1, Question No.2

PRC

U.S. News & World Report, L.P.**Michael John Armstrong (USNews-T-1)**

ABM/USNews-T1-1	ABM, USPS
ABM/USNews-T1-2	ABM, USPS
ABM/USNews-T1-3	ABM, USPS
ABM/USNews-T1-4	ABM, USPS
ABM/USNews-T1-5	ABM, USPS
ABM/USNews-T1-6	ABM, USPS
ABM/USNews-T1-7	ABM
ABM/USNews-T1-8	ABM, USPS
ABM/USNews-T1-9	ABM, USPS
ABM/USNews-T1-10	ABM, USPS
ABM/USNews-T1-11	ABM
ABM/USNews-T1-12	ABM
ABM/USNews-T1-13	ABM
ABM/USNews-T1-14	ABM, USPS
ABM/USNews-T1-16	ABM, USPS
Direct Testimony Michael John Armstrong (USNew-t-1)	U.S. News

United States Postal Service**Michael W. Miller (USPS-RT-1)**

TW et al./USPS-RT1-1	TW et al.
TW et al./USPS-RT1-3c	TW et al.
TW et al./USPS-RT1-4	TW et al.
TW et al./USPS-RT1-5	TW et al.
TW et al./USPS-RT1-6	TW et al.
TW et al./USPS-RT1-7	TW et al.
TW et al./USPS-RT1-8	TW et al.
TW et al./USPS-RT1-9	TW et al.
TW et al./USPS-RT1-10	TW et al.
Direct Testimony Michale W. Miller (USPS-RT-1)	USPS

InterrogatoryDesignating Parties**Rachel Tang (USPS-RT-2)**

MPA/USPS-RT2-1	TW et al.
MPA/USPS-RT2-2	TW et al.
MPA/USPS-RT2-3	TW et al.
MPA/USPS-RT2-4	TW et al.
MPA/USPS-RT2-5	TW et al.
MPA/USPS-RT2-6	TW et al.
MPA/USPS-RT2-7	TW et al.
TW et al./USPS-RT2-1	TW et al.
TW et al./USPS-RT2-2	TW et al.
TW et al./USPS-RT2-3	TW et al.
TW et al./USPS-RT2-4	TW et al.
TW et al./USPS-RT2-6	TW et al.
TW et al./USPS-RT2-7	TW et al.
TW et al./USPS-RT2-8	TW et al.
TW et al./USPS-RT2-9	TW et al.
TW et al./USPS-RT2-10	TW et al.
TW et al./USPS-RT2-11	TW et al.
TW et al./USPS-RT2-12	TW et al.
TW et al./USPS-RT2-13	TW et al.
TW et al./USPS-RT2-14	TW et al.
TW et al./USPS-RT2-15	TW et al.
TW et al./USPS-RT2-16	TW et al.
TW et al./USPS-RT2-17	TW et al.
TW et al./USPS-RT2-18	TW et al.
TW et al./USPS-RT2-19	TW et al.
TW et al./USPS-RT2-20	TW et al.
TW et al./USPS-RT2-21	TW et al.
TW et al./USPS-RT2-22	TW et al.
TW et al./USPS-RT2-23	TW et al.
TW et al./USPS-RT2-24	TW et al.
TW et al./USPS-RT2-25	TW et al.
Direct Testimony Rachel Tang (USPS-RT-2)	USPS
Response to POIR No. 2	TW et al.

InterrogatoryDesignating Parties**Institutional**

TW et al./USPS-2

TW et al.

TW et al./USPS-RT1-2 redirected to USPS

TW et al.

TW et al./USPS-RT1-3a redirected to USPS

TW et al.

TW et al./USPS-RT1-3b redirected to USPS

TW et al.

TW et al./USPS-RT1-11 redirected to USPS

TW et al.

American Business Media

**Lou Bradfield
(ABM-T-2)**

Response of ABM to TW et al./ABM-T2-1

TW et al./ABM-T2-1:

Please provide a list of all VNU owned or operated publications and the projected rate impact (in dollars and as a percentage of current postage) upon each title if the proposed rates were implemented.

RESPONSE

The titles published by VNU are listed below. The impact of the proposed rates on 25 of these titles is shown in Exhibit LB-1, lines 91-115.

Adweek	Incentive
American Artist	Kirkus Reviews
Amusement Business	Kitchen & Bath
Apparel	Business
Architectural Lighting	Mediaweek
Architecture	Meeting News
Backstage	Multi Housing News
Backstage West	National Jeweler
Beverage Aisle	Photo District News
Beverage World	Potentials
Billboard	Presentations
Brandweek	Progressive Grocer
Business Travel News	Restaurant Business
Commercial Property	Retail Merchandiser
News	Ross Reports
Contract	Sales & Marketing
Convenience Store	Management
News	Shoot
Display Design Ideas	Sporting Goods
Editor & Publisher	Business
Embroidery/Monogram	Successful Meetings
Bus.	The Gourmet Retailer
Film Journal	The Hollywood
International	Reporter
Foodservice Director	Training
Hospitality Design	Watercolor
Impressions	

Response of ABM to TW et al./ABM-T2-2**TW et al./ABM-T2-2**

Have you conducted any analyses to determine if any changes in mailing behavior could be made to mitigate the impact of the proposed rates upon the VNU publications? If the answer is yes, please provide copies of all such analyses and the data on which they were based (e.g., mail.dat files).

RESPONSE

No.

Response of ABM to TW et al./ABM-T2-4

TW et al./ABM-T2-4

On page 6, lines 15-18, you state: "But there is also no doubt that of the 25,000 or so outside-county Periodicals in the mail (Tr. 1041), a good number would be staring at increases of the type portrayed at the upper end of the range on my exhibit with no reasonable opportunity to change their mailing practices."

- a. Have you done any analysis to substantiate this claim?
- b. Have you done any analysis to determine how the increases would change if they could change their mailing behavior?
- c. Please identify how many publications is a "good number."
- d. Please identify why these publications have "no reasonable opportunity to change their mailing practices."

RESPONSE

- a. No, my testimony is based upon my experience in the industry, not "analysis."
- b. I have not, but I certainly agree that there are steps that some mailers could take, in theory, to reduce the increases from the proposed rates, just as, I suppose, they could in theory make changes to make the increases larger. Clearly, making fewer and therefore larger bundles, sacks and pallets would lessen the adverse impact of the proposed rates on postage charges, as would, in many cases, switching from sacks to pallets and increasing drop shipping. Two questions are whether publishers can make those changes, based upon the mailing characteristics and service needs of individual publications and printers, and how much it would cost them in terms of printer and software costs to make the changes.

Response of ABM to TW et al./ABM-T2-4

c. I have no specific number in mind. The thought I meant to convey is that there are enough publications that would face large increases with little or no opportunity to avoid the cost increases to be of concern to the Commission.

d. They can fall into this category for a number of reasons. They may be weeklies with service needs that cannot be met if they are co-palletized or co-mailed. They may be tabloid-sized, which essentially precludes co-mailing at probably any plant and certainly at any printer that prints only a few. They may be newspapers of the type described in the NNA testimony. They may be printed by very small printers without the volume, floor space and/or capital to co-mail or co-palletize. They may have such small volumes that increasing sack and bundle sizes would do little to offset the increases. You have to remember that the country's large printers print a comparatively small number of Periodicals. QuadGraphics, with its multiple printing plants, is a good example. It prints an awful lot of copies, but only 171 titles, according to witness Schick.

Response of ABM to TW et al./ABM-T2-5**TW et al./ABM-T2-5**

On page 8, line 27-page 9, line 2, you state: "Rather, the rates for supplemental mailings are higher because the Postal Service's costs for these smaller, less work-shared mailings are higher, and the cost based rates in effect today reflect those cost differences." What percentage of the cost differences are actually reflected in the rates that are in effect today?

RESPONSE

I don't know.

Response of ABM to TW et al./ABM-T2-6**TW et al./ABM-T2-6**

- a. Who performs the presort for VNU publications?
- b. Does this provider utilize parameters that define minimum package size, minimum sack size, and minimum pallet size prior to actually performing the presort?

RESPONSE

a. It varies with the publication. In some cases it is fulfillment houses and in other cases printers.

b. Yes.

Response of ABM to TW et al./ABM-T2-7**TW et al./ABM-T2-7**

On page 14, lines 14-16 you state: "For another, the ability to make four 20,000 circulation publications look for postal purposes like on 80,000 publication is unlikely to lead to substantial improvement in the ability to avoid sacks and the worst of the proposed rates." Please provide all mail.dat files and analyses that you have conducted to reach this conclusion.

RESPONSE

This testimony is based on my experience, not any analysis. After reading this question, I decided to take a look at the publications on Exhibit LB-1 to see the effect on Periodicals in the 70,000 to 90,000, in other words those near my hypothetical 80,000. I counted ten, with nine of the ten experiencing increases. The average impact (on all ten) is an increase of 8.5%. And because we're talking now about co-mailing or co-palletizing, we also must consider the cost performing the co-mailing or co-palletizing.

Response of ABM to TW et al./ABM-T2-8

TW et al./ABM-T2-8

On page 5 you describe a study of 144 publications, belonging to five ABM member organizations. The exhibit at the end of your testimony summarizes the results. A single Excel file, containing four worksheets, each presenting summaries of results for certain publications, whose numbers add up to 144, was provided to Time Warner, Inc. et al. by ABM.

- a. Please describe your own role in carrying out this study, both with regard to VNU owned publications and those owned by other organizations.
- b. If you did not personally perform the analysis of VNU publications in this study, who did?
- c. If you did not personally coordinate the effort to summarize the analysis into the exhibit shown in your testimony, who did?
- d. If you did not personally coordinate the effort to produce the Excel file mentioned above, who did?
- e. How many VNU owned publications are included in the set of 144, and how were they selected from among all VNU publications? Please identify the VNU publications that were studied.
- f. Please confirm that Crain Communications was one of the other media organizations whose publications were analyzed in this study.
- g. Please identify the other ABM organizations whose publications were analyzed in this study.
- h. Please confirm that the analysis involved the creation, for each publication, of one Excel spreadsheet, into which were copied results from an Access program provided by Complainants. Please provide a copy of each such Excel spreadsheet (the identities of particular publishers and publications may be masked, and/or materials may be submitted subject to the terms of the existing Nondisclosure Agreement between ABM and Time Warner, Inc. et al, dated August 27, 2004).
- i. Please provide the mail.dat files used in the analysis (the identities of particular publishers and publications may be masked, and/or materials may be submitted subject to the terms of the existing Nondisclosure Agreement between ABM and Time Warner, Inc. et al., dated August 27, 2004).

Response of ABM to TW et al./ABM-T2-8**RESPONSE**

a. First, the exhibit actually includes data for 153 publications, not 144, because line 77 includes 5 co-palletized titles, line 78 includes nine co-palletized titles and lines 132-34 repeat line 131. A corrected and enhanced exhibit is being filed in response to POIR-3. My role in the preparation of the Exhibit was that I performed the calculations for the VNU titles contained in that exhibit.

b. Not applicable.

c. I have been advised that the work of taking the data provided by each of the American Business Media members that calculated impact and creating the exhibit was performed by a law clerk at Thompson Coburn, working under the supervision of American Business Media's counsel.

d. I have been advised that the work of preparing the Excel file provided to the complainants was performed by a law clerk at Thompson Coburn, working under the supervision of American Business Media's counsel

e. We produce 46 domestic, outside-county Periodicals. I analyzed 25 (for these purposes counting two co-stitched titles as one). I chose those 25 because mail.dat files were immediately available, and I had a deadline for providing the analysis. If the names of the publications are truly needed, we can provide them under a nondisclosure agreement.

Response of ABM to TW et al./ABM-T2-8

f. Confirmed.

g. I understand that the others (besides VNU and Crain) were Reed Business, PennWell and ComputerWorld, although I did not know that until recently.

h. I can confirm that, for VNU, the analysis included the creation of a spreadsheet for each publication, although I viewed the information on my computer and never actually printed (or saved) it. I do not have and never had the spreadsheets for the publications of other publishers. After shipping my summary sheet to counsel in the spring, that is, the sheet that has already been provided to the complainants, I did not save the data.

i. I do not have and never had mail.dat files for the other publishers that calculated impact. Mail.dat files are not normally saved, and I did not save the mail.dat files I used to calculate the impact on VNU publications. Keep in mind that, at the time I calculated this impact, I had no idea that I would be testifying in this case.

Response of ABM to TW et al./ABM-T2-10

TW et al./ABM-T2-10:

In response to TW et al./ABM-T2-1 you list the VNU Periodicals and state that you analyzed the impact of the proposed rates on 25 of them. You further indicate that the results are shown in lines 91-115 of Exhibit LB-1. The table attached to this interrogatory is from an Excel spreadsheet that was provided by ABM counsel and said to contain a summary of the analysis performed on 141 (later corrected to 153) ABM publications. The attached table shows the information provided for lines 91-115, which differs somewhat from the information provided for other publications.

- a. Please confirm that the attached table does show information that was generated for the 25 VNU publications and that you or someone you worked with generated this information and provided it to ABM counsel. If you cannot confirm, please explain precisely what information you did provide about the 25 publications.
- b. Please explain the meaning of the percentages entered in the columns labeled % 3 dg, % 5 dg, % SCF and % ADC and explain why the numbers in some rows add up to more than 100% and in other rows to less than 100%.
- c. Please confirm that the second column gives the number of issues per year for each publication. If not confirmed, please explain.
- d. Please confirm that the third column contains the number of entry points when a publication is entered in more than one postal facility and explain the meaning of the expression "dyn" in some rows.
- e. Please confirm that the numbers in the fourth column express the value of the sack minimum parameter that was used in generating the presort for each publication. If not confirmed, please explain.
- f. Please indicate the actual number of pieces per sack and pieces per pallet for each of the 25 publications.
- g. Please indicate for which of the 25 publications you assumed machinability for the purpose of determining the postage under the proposed rates and the criteria you used to determine machinability.
- h. Please confirm that, having deleted the mail.dat files used, you are no longer capable of replicating the numbers shown in the attached table and the corresponding entries in your Exhibit LB-1. If not confirmed, please provide the data from which the numbers can be replicated.

Response of ABM to TW et al./ABM-T2-10**RESPONSE**

- a. Confirmed, but please note that I considered Adweek/Mediaweek to be one publication for this chart because they mailed together for this issue.
- b. The percentages entered in the columns labeled "% 3 dig" and "% 5 dig" are the percentage of pieces in the mailing that are sorted to 3 digits and 5 digits, respectively. The percentages greater than zero in the columns labeled "% SCF" and "% ADC" are the percentages of copies entered at destination SCFs and ADCs, respectively. Please note that the zeros entered on many rows in these columns do not necessarily indicate that no pieces were entered at DSCFs and DADCs. For some reason, blanks became zeros. I included the DSCF and DADC information only for the publications with multiple entry points. The reason that "the numbers in some rows" add up to more or less than 100% is that there is no reason to be adding them. The 3-digit and 5-digit sort numbers can be added, and the SCF and ADC entry numbers can be added, but there is no reason to add the former, which represent piece sortation, with the latter, which indicate entry.
- c. Confirmed.
- d. Confirmed that the third column contains the number of entry points. "Dyn" stands for dynamic entry, which means that the number of entry points changes from issue to issue, but it is always at least 10.
- e. Confirmed.
- f. Because I did not retain the mail.dat files, I do not have this information.
- g. I do not recall making any assumption. I believe that all of these publications would qualify as machinable, and I assume that the Time Warner-supplied Access file, applied to our mail.dat file, included some assumption or test.
- h. Confirmed.

Response of ABM to et al./ABM-T2-10

Attachment to TW et al./ABM-T2-10

Publication	Freq	Entry Pts	MAILE D	Sack Min Now	pc wt	ad %	Plts	Sacks	% 3 dg	% 5 dg	% SCF	% ADC	1 issue Postage 04	1 issue Postage IF	Change	Annual Cost
91	48	19	22,193	20	0.350	54%	4	419	36.4%	50.5%	22.8%	22.6%	\$6,313	\$6,418	1.7%	\$5,040
92	12		62,265	20	0.460	19%	42	398	44.0%	55.4%	0.0%	0.0%	\$18,501	\$20,355	10.0%	\$22,248
93	12		14,864	24	0.220	40%	0	314	58.6%	29.2%	0.0%	0.0%	\$4,255	\$4,767	12.0%	\$6,144
94	7		24,833	24	0.400	55%	4	415	40.6%	53.0%	0.0%	0.0%	\$8,717	\$9,227	5.9%	\$3,570
95	12		17,139	24	0.160	51%	0	398	71.5%	18.6%	0.0%	0.0%	\$5,012	\$5,631	12.4%	\$7,428
96	12		30,405	24	0.300	59%	0	684	45.0%	48.9%	0.0%	0.0%	\$9,816	\$10,832	10.4%	\$12,192
97	51	17	11,986	6	0.550	30%	0	709	49.8%	26.9%	21.6%	0.0%	\$3,864	\$5,008	29.6%	\$58,344
98	45	19	16,760	20	0.370	49%	1	352	45.0%	41.6%	18.5%	24.3%	\$4,934	\$4,971	0.7%	\$1,665
99	24		55,699	20	0.240	36%	7	787	38.1%	57.5%	13.6%	4.3%	\$13,853	\$14,062	1.5%	\$5,016
100	22		30,523	24	0.230	46%	4	486	33.1%	51.7%	0.0%	0.0%	\$8,206	\$8,940	8.9%	\$16,148
101	12	Dyn	30,204	24	0.620	38%	32	274	33.5%	57.6%	22.1%	9.7%	\$10,271	\$10,403	1.3%	\$1,584
102	15	Dyn	71,904	20	0.570	64%	71	215	44.1%	48.4%	9.4%	12.9%	\$26,614	\$25,977	-2.4%	-\$9,555
103	13	2	22,398	20	0.360	45%	0	664	60.1%	26.5%	14.9%	14.5%	\$6,897	\$12,311	78.5%	\$70,382
104	13		49,452	24	0.390	58%	10	820	63.6%	32.9%	0.0%	0.0%	\$17,987	\$29,789	65.6%	\$153,426
105	12		25,969	24	0.600	65%	7	477	61.2%	24.0%	0.0%	0.0%	\$11,895	\$12,151	2.2%	\$3,072
106	15		36,300	24	0.530	60%	27	345	49.4%	47.3%	0.0%	0.0%	\$14,608	\$15,242	4.3%	\$9,510
107	12		40,992	24	0.410	54%	22	386	37.0%	58.3%	0.0%	0.0%	\$14,055	\$14,691	4.5%	\$7,632
108	12		50,480	24	0.270	51%	11	645	38.1%	58.9%	0.0%	0.0%	\$15,004	\$15,853	5.7%	\$10,188
109	12	Dyn	30,047	24	0.580	57%	26	380	61.4%	32.1%	14.5%	12.6%	\$11,500	\$11,768	2.3%	\$3,216
110	20	Dyn	121,540	20	0.280	51%	53	647	18.5%	63.7%	15.1%	19.3%	\$30,516	\$30,423	-0.3%	-\$1,860
111	12		17,805	24	0.570	53%	3	393	64.3%	22.2%	0.0%	0.0%	\$7,331	\$7,737	5.5%	\$4,872
112	12		63,938	20	0.350	37%	8	1,105	48.4%	45.2%	0.0%	0.0%	\$19,126	\$20,577	7.6%	\$17,412
113	44	3	8,019	6	0.220	48%	4	406	24.8%	40.5%	32.8%	0.0%	\$1,917	\$3,078	60.6%	\$51,084
114	13	Dyn	73,238	20	0.560	58%	138	203	30.9%	58.0%	22.4%	13.4%	\$24,297	\$25,722	5.9%	\$18,525
115	11		42,012	24	0.310	54%	13	583	40.1%	52.9%	0.0%	0.0%	\$13,142	\$22,960	74.7%	\$107,998

ABM-T-2

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES

Docket No. C2004-1

DIRECT PREPARED TESTIMONY OF LOU BRADFIELD
ON BEHALF OF AMERICAN BUSINESS MEDIA
(September 9, 2004)

1 My name is Lou Bradfield, and I am submitting this testimony on behalf of
2 American Business Media. The general purpose of my testimony is to respond to
3 certain assertions and assumptions that have been put forth by the complainants to
4 support a radical and, I believe, potentially very harmful change in Periodicals rate
5 design. As someone with substantial experience in both the printing and distribution
6 sides of the business, and who has worked with both large and small circulation
7 periodicals, I think that I am well equipped to comment on some of the issues raised by
8 the proposal.

9 Many businesses, including publishers and printers, have developed business
10 models based upon the type of rate structure that has been in existence for many
11 decades, a structure that has changed gradually over the years to reflect changes in
12 processing costs and to more fully reflect those costs.

13 Adaptation to these changes has for the most part been possible, although, also
14 for the most part, smaller circulation Periodicals appear to have absorbed more of a
15 burden than larger circulation Periodicals. For example, I recall that in Docket No.

1 MC95-1, the reclassification case in which I testified for what was then American
2 Business Press, the Commission rejected the proposed split of the Periodicals class but
3 recommended rate changes, such as a very large increase in the carrier route discount
4 (§ 5328), that caused the rates for smaller circulation periodicals to increase while those
5 for the largest publications decreased. I understand that per copy postage for Time and
6 Sports Illustrated are now about what they were prior to the decision in MC95-1, and
7 that as proposed they would be lower than they were a decade and several rate
8 increases ago.

9 I submit that even though it might be reasonable for the Commission to consider
10 recommending some modest changes, it should reject the major overhaul proposed for
11 many of the same reasons that it rejected the major overhaul in the reclassification
12 case. I think that the Commission well understands that big rate changes that will
13 allegedly "drive costs out of the system" might well drive mailers out instead.

14 Autobiographical Sketch

15 My present position is Corporate Distribution Director for VNU Business
16 Publications, where I have been employed for two years. VNU publishes forty- eight
17 titles, among them some that are relatively known, such as The Hollywood Reporter,
18 Billboard, and AdWeek, and some that are highly specialized and well known only in
19 their field, such as Beverage World, Sales & Marketing Management and one of witness
20 Gordon's favorites, Kirkus Review. My present responsibilities include managing the
21 mailing and distribution of all of VNU's titles.

22 Prior to joining VNU, I held similar positions over the past twenty-two years at
Cahners Publishing (now Reed Elsevier), Mack Printing (now Cadmus),

1 and TV Guide Magazine where I handled both production and distribution functions. In
addition, I have also consulted for Dennis Publishing, Deutsche Post Global Mail and
3 others.

4 I have been a MTAC member for several years and the Industry Co-Chair for the
5 USPS Periodicals Focus Groups in the Eastern and Capital Metro Areas since 1994. I
6 have spoken at Postal Forums and MAILCOM, and am a Certified Mail and Distribution
7 Systems Manager (from Mail Systems Management Association). I have also attained
8 the Periodicals Professional Certificate from the USPS. I have a certificate in Criminal
9 Justice from Villanova University and Associate in Arts degree from California State
10 Merced.

11 Cost-based Rates

If there is a single, overriding theme in the complaint and testimony, it is that
13 there should be cost-based Periodicals rates. I certainly do not pretend to have Mr.
14 Stralberg's expertise in measuring the Postal Service's costs or Mr. Mitchell's expertise
15 in turning those costs into rates. Nevertheless, it is not essential to have that level of
16 expertise to conclude that the end result of their efforts do not represent appropriate
17 rates for Periodicals.

18 In this regard, I should note up front that it is difficult to address the rate structure
19 in a vacuum. Although, for example, I believe that the more than \$3 per sack charge
20 proposed would be devastating to many small publications, I cannot say that a 3¢ per
21 sack charge—to pick an extreme and unrealistic number—would create any problems.
22 Therefore, to the extent that I discuss the proposal in terms of the rates that were

1 proposed but that the Commission has ruled are not at issue, I do so because it is
 necessary to put some context on the proposal.

3 My primary objection to the proposal is that it elevates costs and cost-based
 4 rates so far above all other rate factors (except ECSI value, limited to the markup and
 5 the editorial discounts) that it essentially ignores them. For example, Mitchell says (Tr.
 6 851-52) that he considered the impact on mail users, but he really didn't, at least not in
 7 any way that matters. He was asked whether he ran his numbers against actual
 8 Periodicals, and he said that he had not (Tr. 989, 1168). Witness Stralberg concedes
 9 (Tr. 160-61) that he did no analysis of the own-price sensitivities of mail with no
 10 alternative to sacks and mail that cannot be drop shipped. I find it strange that the
 11 complainants asked American Business Media and others for all sorts of detailed data
 from which one can calculate the effect of the proposed rates only after they completed
 13 the filing of their testimony. And, apparently, they did not even calculate the effect of
 14 the proposal on their own publications, including some that are low in circulation and are
 15 likely to see rate increases. For example, witness McGarvy's Exhibit JM-1 shows two
 16 Time Warner publications (Time for Kids and Motocross) with increases of 28% and
 17 12% respectively. Although Time Warner stands to gain more than ²³~~\$16~~ million in
 18 annual savings from the proposal, according to that exhibit, and I'm sure would not lose
 19 any sleep over those two increases, increases like that should have at least given the
 20 complainants pause and led to some more serious investigation of the impact of the
 21 proposed rates on publishers who produce publications that would cause them to see
 22 only the red ink. Furthermore, Mr. Mitchell's claim that his proposal goes easy on
 23 adversely affected "high zone" mailers (Tr. 836) is of little consequence, given the

1 extremely low markup of 1.3% that certain of his assigned costs avoided (Tr. 1036-37).
Although he assumed that there are price points at which mail would leave the system,
3 he did not study the issue (Tr. 162).

4 For a more complete picture of the impact, American Business Media has not
5 only created witness McGarvy's Exhibit JM-1 but also Exhibit LB-1 attached to this
6 testimony. Early in this proceeding, American Business Media's counsel asked a
7 number of American Business Media members to attempt a calculation of the impact of
8 the Time Warner proposed rates, a task that only some can perform, because the
9 calculations require mail.dat files, which not everyone uses. It also required use of an
10 Access file that Time Warner developed and made available. Eventually, five American
11 Business Media members were able to produce the requested comparisons, and they
cover ¹⁵³~~144~~ publications. Excel spreadsheets with the results were provided to American
13 Business Media's counsel, and they have now been provided as well, with publication
14 names removed, to Time Warner in response to a request for production of documents.

15 Not all of the members produced the same type of spreadsheet. The attached
16 Exhibit LB-1 was created from those spreadsheets and includes some of the more
17 meaningful data that were contained on at least most of them. Thus, the columns show
18 per copy circulation, weight, percentages sacked and palletized, per issue postage
19 under the present and proposed rates and the percentage change.

20 Although this is not a scientific sample of the 1,500 or so Periodicals that are
21 members of American Business Media, it does appear that the 10% sample is
22 reasonably representative in many respects. I would guess, however, that since it was
23 only larger companies that were able to perform the calculations, the number of

1 publications with circulations over 100,000 (eighteen) is not representative. On the
other hand, the average number of copies per issue of 54,187 seems about right.

3 The range of impacts is quite large, from five publications with modest reductions
4 to ten with increases greater than 50%. The non-weighted average of the increases,
5 that is, the average of the percentage increases and decreases, is about 13%. As I
6 would have guessed from the rate design, the largest increases tend to be for the
7 publications with relatively high percentages of sacks. I also would guess that, as the
8 complainants are reading this testimony, they are repeating to themselves and perhaps
9 to each other that these numbers assume that mailing practices do not change, and one
10 purpose of their proposal is to "encourage" mailers to change their "behavior" (or force
11 them to pay for the services they allegedly receive if they do not).

I agree. The numbers do assume no change in mailing practice, and there is no
13 doubt that for some of these publications, the increase in postage cost can be
14 ameliorated, or in certain cases perhaps even reversed, if mailers take such steps as
15 increasing sack size, co-mailing, or co-palletizing. But there is also no doubt that of
16 the 25,000 or so outside-county Periodicals in the mail (Tr. 1041), a good number would
17 be staring at increases of the type portrayed at the upper end of the range on my exhibit
18 with no reasonable opportunity to change their mailing practices.

19 American Business Media witness McGarvy has touched on the issue of
20 increasing sack sizes even for publications that have the volume to do so. I will address
21 these cost-saving measures later.

22 First, however, I must discuss cost-based rates some more. To begin with, as
I've already said, the complainants treat maximization of cost basing and the "efficiency"

1 it would create as if they were the 11th commandment. But they are not. We all agree
that rates should to some degree reflect costs, and they already do, as I will show. But
3 the fine tuning in the proposal—creating a rate element for virtually every cost-causing
4 characteristic—is not the appropriate goal of postal rate making, especially for
5 Periodicals.

6 The Commission knows this. In Docket No. R-87-1, at ¶ 5510, it said: “There
7 are criteria in the Act besides those looking to economic efficiency. . . .” In Docket No.
8 R94-1, it ruled that Section 101(a) of the Postal Reorganization Act requires
9 considerations of all policy objectives “rather than allowing efficiency to dominate.” It
10 put these theories to work in the reclassification case, Docket No. MC95-1, a case in
11 many ways like this one. There, according to the Commission (page ii), under the rate
structure proposed for Periodicals, “publishers of small publications and small
13 circulation newspapers would pay more [and]. . . large circulation publishers would pay
14 less.” More specifically, an average of 17% more and 14% less (¶ 5122). The
15 Commission rejected major changes to the Periodicals rate structure, finding (¶ 5134)
16 with words still appropriate that it would be wrong to place “excessive emphasis on
17 ‘driving costs from the system’ and ‘changing mailers’ behavior” without full
18 appreciation for the impact on those that cannot change or could do so “only after
19 considerable adjustments in about every aspect of their operations. . . .” It determined
20 (¶ 5132) that the proposal there, like the proposal here, might “make the formation of
21 new periodicals more difficult by withholding the most favorable rates from publications
22 which have not attained significant levels of market penetration.”

1 From the complainants' complaints one would think that today's Periodicals rates
are randomly developed and not based on costs and are aberrational in that regard.

3 From my perspective, not only are Periodicals rates cost based, they are over time
4 becoming increasingly cost based, and they are probably more cost based than the
5 rates that apply to most mail. One way to demonstrate on a general basis that
6 Periodicals rates are cost-based is to compare the rates for the periodicals that are less
7 costly for the Postal Service to handle with the rates for those that are the more costly.

8 This comparison was made by American Business Media witness McGarvy, who
9 compared the rates paid by Time Warner's weeklies with the rate Crain pays for a
10 publication of equivalent weight and ad content. Crain's rate is 66% higher. Another
11 place to look is at the rates paid by the complainants themselves for a single publication
mailed in mass quantities for its main file mailing and mailed in smaller quantities in
13 supplemental mailings. The data at Tr. 73 to 75 and 116 to 126 (see also Tr. 263)
14 contain telling comparisons, for example:

- 15 • Money's main file mailing contained 1.8 million pieces, with per piece postage of
16 22.96¢. Its supplemental mailing contained 17 thousand pieces at 38.19¢ per
17 piece, or 66% higher (coincidentally the same difference shown by witness
18 McGarvy).
- 19 • The main filing mailing of Conde Nast's Bon Appetite contained 1.1 million pieces
20 and paid postage of 36.86¢ per piece, while the 28,067 piece supplemental
21 mailing paid an unappetizing 46.72¢ per piece, a 27% difference.
- 22 • Conde Nast's Brides pays 55¢ per (heavy) copy in its main file of 127,000, but
23 84¢, or 53%, more for its supplemental mailing of 5,890.

24 Time and Conde Nast do not pay these much higher rates because they like to,
25 and the Postal Service does not charge more for the supplemental mailings to
discourage small mailings more typical of American Business Media member
27 circulation. Rather, the rates for the supplemental mailings are higher because the

1 Postal Service's costs for these smaller, less work-shared mailings are higher, and the
cost based rates in effect today reflect those cost differences. Witness Stralberg
3 confirmed that these rate differences reflect cost differences (Tr. 236).

4 One look at the complex Periodicals rate structure shows just how cost-based it
5 is. As the Commission knows, there are a number of piece rates reflecting processing
6 cost differences as part of a piece/pound structure that seeks to recoup both piece-
7 related and pound-related costs. The zoned advertising pound rate is based on
8 distance-related costs, and there is a modest sack/pallet differential as well as a
9 barcode discount. Witness Mitchell agreed that at least most of the elements of
10 Periodicals rates are cost based, to varying degrees Tr. 938-46 and 1148-50. I
11 understand that there is some cost averaging in the Periodicals rate, just as there is in
any broadly applicable rate. Even the complainants are willing to accept some
13 averaging, as shown by witness Stralberg's support for a cost-averaged bar code
14 discount (Tr. 225).

15 One might conclude from the vigorous attack on Periodicals rates as not "cost
16 based" that they lag behind other postal rates in this regard. But witness Mitchell also
17 contended that First-Class rates are not cost based (Tr. 935) and that Standard rates
18 are not cost based (Tr. 936). He wouldn't commit on parcel post (Tr. 937). Certainly,
19 neither First-Class nor Standard rates are zoned by weight (although Standard rates do
20 reflect drop ship discounts). In addition, even though Periodicals rates appear to be at
21 least as cost-based as other rates, Periodicals rates are supposed to reflect content,
22 which is not a cost consideration. Deviation from pure cost-based rates is therefore to
be expected. Witness Mitchell said he has "no personal problem" with a rate for a 100%

1 editorial Periodical that is below cost or with the "price signal" that sends (Tr. 1150-52).

I don't know why he should be so concerned with cost averaging as a way to preserve a
3 broad and diverse Periodicals class.

4 I said earlier that American Business Media and I are not opposed to serious
5 study and consideration of measured changes that are likely to produce lower Postal
6 Service processing costs without imposing undue hardship upon a segment of the
7 Periodicals class. Doing so, however, it seems to me, requires simultaneous
8 consideration of up-to-date Postal Service processing costs, projections of changes in
9 those costs in the short and intermediate term future and the rate structure, along with
10 an analysis of the likely impact of such changes on all types of Periodicals mailers.
11 Perhaps that was what witness Mitchell was referring to when he made a presentation
in which he contended that changes in Periodicals rate design could not be made by the
13 Commission and that the Postal Service must do studies to support the changes (Tr.
14 902).

15 I'm sure that witness Stralberg did what he could with what he had, but he used a
16 model from R2000-1 updated with the data used to develop fiscal year 2003 costs in
17 R2001-1 (Tr. 21). We are almost in fiscal year 2005, so the data, productivity, mail flow
18 assumptions, etc. are at least two years old. Cost estimates, of course, lose their
19 accuracy over time (Tr. 173).

20 However, things are changing, including the Periodicals processing environment,
21 with widespread use of the AFSM 100 flats processors, introduction of the Automated
22 Package Processing System (see Tr. 179), steps to reduce bundle breakage and, as I
23 understand it, substantial reduction in the use of processing annexes. At August's

1 Periodicals Operations Advisory Committee and Mailers Technical Advisory Committee
meetings, the Postal Service reported that it has been able to reduce its transportation
3 costs by shifting from rail to truck. That announcement was trumped at the end of
4 August, when Amtrak announced that, effective October, it will no longer carry mail. In
5 an August 31st article in the Washington Times, an Amtrak spokesman was quoted as
6 saying that most of the Amtrak mail is "a lot of magazines" on long-distance routes. The
7 Postal Service will have to tell us what this announcement means for Periodicals service
8 and transportation costs.

9 The Postal Service also reported that it is still moving ahead with plans to
10 develop the ability to package or sequence flats to delivery points, as it now does with
11 letters. It has not yet decided whether to go with the more complicated DPP (Delivery
Point Packaging) or the less complicated FSS (Flats Sequencing System) approach. It
13 has, however, already completed Phase 1, concepts and simulations, and is now
14 reviewing proposals in Phase 2. There will soon be awards that will encompass the
15 building of a prototype for FSS and the building of a "test bed" of critical components for
16 DPP. If all goes well, there could be a field test of an FSS prototype in March 2006,
17 field-testing of DPP, if pursued, two years later.

18 What all of this means is that the pattern of cost incurrence is likely to undergo
19 significant change in the next few years, and I think it would be a mistake to restructure
20 rates without consideration of those changes. From the perspective of the
21 complainants, of course, there is no reason to wait, since they will save tens of millions
22 of dollars a year without the need to change a thing and without a penny of incremental
savings to the Postal Service. To the extent that these very large, very knowledgeable

1 and very sophisticated mailers can make some changes, they stand to save even more,
but should they choose to wait with those changes, they would still enjoy the very
3 substantial benefits of the rate design they have proposed.

4 The picture looks very different to the small publishers and printers who even the
5 complainants admit would have to change (if they can) to avoid punishing rate
6 increases for publishers and loss of business for printers. Efforts are underway and
7 should be continued to encourage smaller publishers and printers to engage in cost-
8 saving practices, if they can. I certainly hope that with the latest announcements from
9 Fairrington and Quebecor World discussed by witness McGarvy, co-mailing and co-
10 palletization will be available to and used by many more Periodical mailers to reduce
11 their and the Postal Service's costs.

No rate change is necessary to produce this result. I agree with witness Schick
13 (Tr. 430 and 504) that the co-mail incentives today are adequate, for those that are able
14 to participate. We seem to agree that for most periodicals, the drop ship incentives are
15 also adequate, since he testified that Quad/Graphics can drop ship down to and
16 possibly below 15% advertising content (Tr. 436 and 525) despite the flat editorial rate.
17 Drop ship incentives today are such that, according to witness Mitchell (Tr. 976), 69.2%
18 of all Time Warner pieces are entered at either the DSCF or the DDU. For TV Guide,
19 the percentage is a remarkable 89.6%, for Newsweek 73.18%, for Conde Nast 67.44%,
20 and for Readers Digest 65.05%.

21 My concern is for the weeklies, the very small publications, the small printers with
22 relatively few publications and others that cannot turn a switch or run a program to
23 change their mailing characteristics or the way that they prepare mail. Witness Schick

1 recognized that, even with all of the resources of Quad/Graphics and its admirable
history of co-mailing, his clients have valid reasons for not being able to co-mail,
3 including daily or weekly production schedules that would be difficult to adjust or
4 expand, differing trim sizes, printed polywrap and multiple insertions (Tr. 414), and he
5 added that publications or versions with fewer than 1,500 pieces cannot be co-mailed
6 as a practical matter (Tr. 448). He repeated (Tr. 425) that, even with the multiple and
7 sophisticated co-mail pools run by Quad/Graphics, weekly publications in co-mail pools
8 would risk missing critical entry times.

9 In addition, publications in a co-mailing program such as that at Quad/Graphics
10 cannot at the last minute delay their printing to accommodate a late-breaking story or a
11 lucrative, last-minute advertisement without incurring huge costs for re-running the co-
mail software (Tr. 418), even though there are, according to witness Schick (Tr. Tr.
13 516), publications that believe that they must do so. Business-to-business publications,
14 even many monthlies, are time sensitive news publications, and they cannot afford to
15 wait an entire month to cover a late-breaking story in the industry or profession that they
16 cover.

17 I understand from the Quebecor World press release that it may be able to
18 overcome that problem. I hope so. But that does not mean that publishers that now
19 print at other printers can simply move their work to Quebecor World (or
20 Quad/Graphics) in order to take advantage of co-mailing, assuming that the other
21 problems, such as with weeklies, can be overcome. The typical printing contract is for a
22 3-5 year duration (Tr. 509), according to witness Schick and my own experience, so
23 even if a publisher wanted to make the move, and even if that publisher's periodical(s)

1 could be co-mailed, and even of the publisher was one whose business was desired,
and even if the publisher thought that the new, large printer would provide all of the
3 assistance that a smaller and perhaps closer printer could provide, it could still take
4 years to make the change. And witness Schick agreed (Tr. 509) that when a publisher
5 "has to pull up stakes in one place and move, depending on the amount of work it is and
6 the complexity, that's a big deal for them too. . . ."

7 Where I disagree with Mr. Schick is with his view that entry into the co-mail
8 business is relatively simple and inexpensive and that, as he said, any printer with a 4-
9 pocket Sitma can co-mail (Tr. 471-72). I suppose that, taken literally, it's a true
10 statement that even a printer printing four small publications a month can run them on
11 its 4-pocket Sitma and co-mail, but I'm sure that Mr. Schick would agree that it would
not and could not do so as a practical matter. For one thing, they would all have to print
13 at roughly the same time of the month (unless some agreed to sit around a couple of
14 weeks). For another, the ability to make four 20,000 circulation publications look for
15 postal purposes like one 80,000 publication is unlikely to lead to substantial
16 improvement in the ability to avoid sacks and the worst of the proposed rates.

17 Co-mailing takes volume. It's no accident that nine out of Quad/Graphics' ten co-
18 mail pools per month contain one participant with at least 100,000 copies and that eight
19 of those ten have a participant with at least 250,000 copies (Tr. 391). Of the 105 titles
20 that participate in the Quad/Graphics co-mail pools, only thirty have circulation less than
21 100,000 and more than half have circulation in excess of 200,000. Numbers like that
22 are impossible for shorter-run printers. I would also point out that, in contrast to the

1 theoretical 4-pocket Sitma co-mailer, Quad/Graphics' primary co-mailers contain 24
pockets (Tr. 472), and Quebecor World plans to install 30-pocket co-mailers.

3 Even assuming that a printer has sufficient volume of eligible material for co-
4 mailing, that printer must have both the time and the financial resources to commence
5 co-mailing. According to witness Schick, it would take about twelve to eighteen months
6 to install co-mail equipment and software (Tr. 440), and to get started with a 24-pocket
7 co-mailer would cost from \$500,000 to \$2,000,00 (Tr. 433-34). From what I have been
8 able to learn, these costs are likely to be at the upper end of this range: \$1,500,000 to
9 \$2,000,000. But the time frame suggested by Mr. Schick, while accurate if measuring
10 the time from ordering a machine to making it operable, fails to take into account the
11 time it would take for a new entrant to study the issue and obtain both customer and
investment commitments. These steps could take about a year.

13 In addition, consideration must be given to the large amount of floor space that
14 must be devoted not only to the machine itself but also to the staging space needed
15 both before and after co-mailing. Many printers handling short-run titles have limited
16 space now, and some are land locked. Even if additional floor space can be obtained,
17 the time and money necessary to do so must be added into the equation.

18 Despite these threshold impediments, publishers of shorter run publications are
19 moving in the direction that the complainants wish to "encourage" with rate carrots and
20 sticks. VNU began co-mailing nine of its titles this summer, and our experience,
21 combined with comments to me by several printers, indicate that we can expect to see
22 gross postage savings of about 9% to 15%, with the added front-end costs eroding

1 around half of that number. For our titles for a couple of months, the net postage saving
has been about 4.5%. I expect that number to improve over time.

3 To me, the bottom line is that more co-palletizing and more co-mailing can be
4 done, is being done and will be done. It takes no rate design change to encourage
5 mailers to avoid the costs and damage of loading their publications into many small
6 sacks or to encourage the nation's larger publication printers to move forward in this
7 area. The main effects of the rate design and rate changes proposed here would be to
8 provide millions of dollars of rate reductions to those periodicals already paying the
9 lowest rates while imposing much higher postage costs on those unable to participate in
10 the proposed "race to efficiency."

RECEIVED

POSTAL RATE COMMISSION

2004 NOV 12 A 9 56

COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY
Docket No. C2004-1

DECLARATION

I, Lou Bradfield, hereby declare under penalty of perjury that:

The *Direct Prepared Testimony of Lou Bradfield on Behalf of American Business Media*, denominated ABM-T2, was prepared by me or under my direction;

Were I to give this testimony orally before the Commission, it would be the same (except that I submitted a corrected exhibit LB-1 in response to POIR No. 3).

The interrogatory responses and responses to the Presiding Officer's Information Request filed under my name were prepared by me or under my direction; and

Were I to respond orally to the questions appearing in the interrogatories and in the Information Request, my answers would be the same.



Lou Bradfield

11-1-2004
Date

Corrected and Revised Per POIR-3

RATE INCREASES AT PROPOSED RATES

Exhibit LB-1: Page 1 of 4

Publication	Circ. per copy	Avg Weight (lbs.)	Edit. %	% Sacked	% Palletized	Per issue postage (Current)	Per issue postage (Proposed)	Postage % change
1	153,500	0.53	39	11	89	\$31,364.00	\$34,700.00	10.64
2	126,000	0.36	39	23	77	\$29,495.00	\$30,527.00	3.50
3	83,000	0.23	50	52	48	\$18,575.00	\$19,848.00	6.85
4	32,000	0.36	49	65	35	\$6,386.00	\$7,096.00	11.12
5	26,000	0.31	47	88	12	\$6,917.00	\$7,462.00	7.88
6	131,700	0.45	44	24	76	\$43,366.00	\$48,007.00	10.70
7	44,000	0.22	51	78	22	\$9,091.00	\$9,996.00	9.94
8	77,300	0.36	56	39	61	\$21,326.00	\$22,386.00	4.97
9	46,000	0.19	57	86	14	\$9,831.00	\$10,856.00	10.42
10	77,000	0.25	47	82	18	\$15,147.00	\$15,994.00	5.59
11	64,000	0.21	35	97	3	\$9,947.00	\$10,941.00	10.00
12	92,500	0.30	38	17	83	\$23,159.00	\$25,618.00	10.62
13	68,000	0.37	48	49	51	\$19,368.00	\$20,305.00	4.84
14	99,000	0.21	45	27	73	\$22,883.00	\$24,335.00	6.35
15	42,000	0.34	41	63	37	\$12,313.00	\$13,122.00	6.57
16	157,500	0.43	45	11	89	\$48,345.00	\$48,882.00	1.11
17	48,000	0.31	53	94	6	\$12,511.00	\$13,374.00	6.90
18	21,000	0.33	53	N/A	N/A	\$7,412.00	\$8,042.00	8.50
19	54,000	0.38	43	70	30	\$16,196.00	\$16,847.00	4.02
20	38,000	0.38	44	79	21	\$9,031.00	\$10,107.00	11.91
21	36,500	0.24	49	97	3	\$8,839.00	\$9,762.00	10.40
22	96,500	0.28	50	39	61	\$23,709.00	\$24,723.00	4.27
23	152,000	0.24	56	20	80	\$36,987.00	\$37,826.00	2.27
24	76,000	0.34	45	30	71	\$23,681.00	\$24,564.00	3.73
25	87,000	0.30	42	42	58	\$21,383.00	\$22,381.00	4.67
26	100,000	0.27	43	26	75	\$20,114.00	\$21,446.00	6.62
27	82,000	0.22	65	54	46	\$16,622.00	\$18,186.00	9.41
28	42,000	0.29	61	90	10	\$8,211.00	\$9,241.00	12.55
29	76,000	0.31	46	74	26	\$22,083.00	\$23,670.00	7.19
30	101,000	0.20	40	20	80	\$24,312.00	\$25,879.00	6.45
31	38,000	0.26	45	87	13	\$10,115.00	\$11,070.00	9.44
32	163,000	0.25	41	30	70	\$31,041.00	\$32,513.00	4.74
33	91,700	0.16	39	66	34	\$19,576.00	\$21,263.00	8.62
34	96,600	0.28	42	34	66	\$21,254.00	\$22,550.00	6.09
35	22,000	0.39	48	N/A	N/A	\$6,067.00	\$6,247.00	2.96
36	63,700	0.35	39	62	38	\$15,632.00	\$16,483.00	5.45
37	98,000	0.27	62	32	68	\$21,350.00	\$22,859.00	7.07

Corrected and Revised Per POIR-3

RATE INCREASES AT PROPOSED RATES

Exhibit LB-1: Page 2 of 4

Publication	Circ. per copy	Avg Weight (lbs.)	Edit. %	% Sacked	% Palletized	Per issue postage (Current)	Per issue postage (Proposed)	Postage % change
38	10,600	0.36	45	N/A	N/A	\$3,778.00	\$4,108.00	8.72
39	43,000	0.24	41	81	19	\$10,581.00	\$11,371.00	7.46
40	102,000	0.69	37	27	73	\$33,841.00	\$34,988.00	3.39
41	65,000	0.37	45	29	71	\$20,671.00	\$21,517.00	4.09
42	174,000	0.27	40	17	84	\$26,402.00	\$29,352.00	11.18
43	28,000	0.21	52	N/A	N/A	\$6,057.00	\$6,412.00	5.86
44	21,000	0.34	60	N/A	N/A	\$5,741.00	\$6,318.00	10.06
45	35,000	0.34	48	72	28	\$7,456.00	\$8,153.00	9.35
46	46,000	0.21	63	69	31	\$11,573.00	\$12,667.00	9.45
47	19,700	0.57	47	91	9	\$6,112.00	\$6,576.00	7.58
48	27,200	0.84	44	64	36	\$10,885.00	\$11,738.00	7.83
49	17,600	0.29	52	N/A	N/A	\$4,162.00	\$4,364.00	4.87
50	7,000	0.20	58	N/A	N/A	\$2,118.00	\$2,234.00	5.48
51	55,000	1.14	45	34	66	\$26,689.00	\$28,710.00	7.57
52	18,000	0.67	57	73	27	\$7,382.00	\$8,223.00	11.39
53	16,000	0.33	52	N/A	N/A	\$4,490.00	\$4,764.00	6.11
54	26,000	0.35	70	87	13	\$5,768.00	\$6,118.00	6.08
55	37,000	0.77	59	55	45	\$16,279.00	\$17,662.00	8.50
56	2,200	0.22	55	N/A	N/A	\$523.00	\$543.00	3.89
57	17,000	0.55	65	N/A	N/A	\$5,268.00	\$4,891.00	(7.16)
58	31,300	0.73	41	N/A	N/A	\$11,269.00	\$14,707.00	30.51
59	8,300	0.21	56	31	69	\$2,188.00	\$2,318.00	5.91
60	8,700	0.22	57	N/A	N/A	\$2,348.00	\$2,403.00	2.35
61	10,800	0.31	55	61	39	\$2,891.00	\$2,881.00	(0.35)
62	6,300	0.24	56	N/A	N/A	\$1,701.00	\$1,731.00	1.74
63	11,600	0.23	55	72	28	\$3,295.00	\$3,375.00	2.42
64	8,800	0.25	58	N/A	N/A	\$2,424.00	\$2,488.00	2.65
65	7,000	0.25	50	22	78	\$1,830.00	\$1,772.00	(3.19)
66	10,500	0.32	47	31	69	\$3,256.00	\$3,451.00	5.97
67	10,400	0.22	57	11	89	\$2,773.00	\$2,925.00	5.48
68	7,300	0.24	50	66	34	\$2,013.00	\$2,078.00	3.23
69	7,000	0.26	52	14	86	\$1,945.00	\$2,094.00	7.65
70	40,500	0.53	42	23	77	\$14,915.00	\$17,900.00	20.01
71	49,500	0.43	49	22	78	\$15,593.00	\$19,142.00	22.76
72	21,800	0.55	43	64	36	\$8,451.00	\$10,450.00	23.65
73	160,000	0.38	46	71	29	\$40,116.00	\$54,067.00	34.78
74	88,000	0.42	46	79	21	\$33,983.00	\$47,266.00	39.09

Corrected and Revised Per POIR-3

RATE INCREASES AT PROPOSED RATES

Exhibit LB-1: Page 3 of 4

Publication	Circ. per copy	Avg Weight (lbs.)	Edit. %	% Sacked	% Palletized	Per issue postage (Current)	Per issue postage (Proposed)	Postage % change
75	39,000	0.27	47	86	14	\$10,319.00	\$14,537.00	40.88
76	364,345	0.22	44	21	79	\$89,633.00	\$99,333.00	10.82
77	194,152	0.33	54	34	66	\$45,038.00	\$52,059.00	15.59
78	311,522	0.26	61	33	67	\$66,973.00	\$79,958.00	19.39
79	47,805	0.19	53	8	92	\$3,266.00	\$3,550.00	8.70
80	33,056	0.18	55	10	90	\$5,246.00	\$5,340.00	1.79
81	18,912	0.20	43	9	91	\$1,174.00	\$1,348.00	14.82
82	61,074	0.20	62	14	86	\$5,121.00	\$6,161.00	20.31
83	31,320	0.35	50	79	21	\$9,440.00	\$13,928.00	47.54
84	24,519	0.16	48	100	0	\$6,869.00	\$11,384.00	65.73
85	15,605	0.17	56	100	0	\$4,294.00	\$7,158.00	66.70
86	17,985	0.18	45	100	0	\$5,375.00	\$8,187.00	52.32
87	33,093	0.21	58	100	0	\$9,013.00	\$16,225.00	80.02
88	155,960	0.38	48	24	76	\$41,038.00	\$43,680.00	6.44
89	196,920	0.32	53	26	74	\$48,164.00	\$50,138.00	4.10
90	154,277	0.42	44	27	73	\$43,327.00	\$45,604.00	5.26
91	22,193	0.350	46	N/A	N/A	\$6,313.00	\$6,418.00	1.66
92	62,265	0.460	81	N/A	N/A	\$18,501.00	\$20,355.00	10.02
93	14,864	0.220	60	N/A	N/A	\$4,255.00	\$4,767.00	12.03
94	24,833	0.400	45	N/A	N/A	\$8,717.00	\$9,227.00	5.85
95	17,139	0.160	49	N/A	N/A	\$5,012.00	\$5,631.00	12.35
96	30,405	0.300	41	N/A	N/A	\$9,816.00	\$10,832.00	10.35
97	11,986	0.550	70	N/A	N/A	\$3,864.00	\$5,008.00	29.61
98	16,760	0.370	51	N/A	N/A	\$4,934.00	\$4,971.00	0.75
99	55,699	0.240	64	N/A	N/A	\$13,853.00	\$14,062.00	1.51
100	30,523	0.230	54	N/A	N/A	\$8,206.00	\$8,940.00	8.94
101	30,204	0.620	62	N/A	N/A	\$10,271.00	\$10,403.00	1.29
102	71,904	0.570	36	N/A	N/A	\$26,614.00	\$25,977.00	(2.39)
103	22,398	0.360	55	N/A	N/A	\$6,897.00	\$12,311.00	78.50
104	49,452	0.390	42	N/A	N/A	\$17,987.00	\$29,789.00	65.61
105	25,969	0.600	35	N/A	N/A	\$11,895.00	\$12,151.00	2.15
106	36,300	0.530	40	N/A	N/A	\$14,608.00	\$15,242.00	4.34
107	40,992	0.410	46	N/A	N/A	\$14,055.00	\$14,691.00	4.53
108	50,480	0.270	49	N/A	N/A	\$15,004.00	\$15,853.00	5.66
109	30,047	0.580	43	N/A	N/A	\$11,500.00	\$11,768.00	2.33
110	121,540	0.280	49	N/A	N/A	\$30,516.00	\$30,423.00	(0.30)
111	17,805	0.570	47	N/A	N/A	\$7,331.00	\$7,737.00	5.54

Corrected and Revised Per POIR-3

RATE INCREASES AT PROPOSED RATES

Exhibit LB-1: Page 4 of 4

Publication	Circ. per copy	Avg Weight (lbs.)	Edit. %	% Sacked	% Palletized	Per issue postage (Current)	Per issue postage (Proposed)	Postage % change
112	63,938	0.350	63	N/A	N/A	\$19,126.00	\$20,577.00	7.59
113	8,019	0.220	52	N/A	N/A	\$1,917.00	\$3,078.00	60.56
114	73,238	0.560	42	N/A	N/A	\$24,297.00	\$25,722.00	5.86
115	42,012	0.310	46	N/A	N/A	\$13,142.00	\$22,960.00	74.71
116	18,060	0.21	57	91	9	\$5,022.00	\$5,629.00	12.09
117	35,723	0.23	64	84	16	\$9,601.00	\$10,428.00	8.61
118	24,229	0.22	50	100	0	\$7,228.00	\$7,754.00	7.28
119	29,405	0.66	54	71	29	\$12,121.00	\$16,723.00	37.97
120	36,064	0.18	49	100	0	\$10,340.00	\$11,347.00	9.74
121	29,540	0.19	54	100	0	\$7,799.00	\$14,115.00	80.98
122	102,771	0.72	40	11	89	\$45,794.00	\$47,840.00	4.47
123	22,805	0.18	51	100	0	\$6,356.00	\$7,304.00	14.92
124	40,808	0.48	52	50	50	\$14,859.00	\$15,728.00	5.85
125	12,752	0.17	63	100	0	\$3,481.00	\$3,925.00	12.75
126	33,774	0.39	51	72	28	\$11,397.00	\$12,073.00	5.93
127	52,012	0.69	36	26	74	\$22,838.00	\$23,980.00	5.00
128	22,948	0.24	49	89	11	\$6,614.00	\$10,918.00	65.07
129	32,087	0.34	54	68	32	\$9,863.00	\$10,611.00	7.58
130	36,373	0.18	72	92	8	\$9,032.00	\$9,917.00	9.80
131	29,357	0.47	73	47	53	\$8,346.00	\$8,748.00	4.82
132	16,345	0.25	45	60	40	\$4,775.00	\$5,054.00	5.84
133	14,617	0.52	33	31	69	\$5,434.00	\$6,310.00	16.12
134	28,301	0.17	41	93	7	\$7,971.00	\$8,556.00	7.34
135	50,646	0.99	59	31	69	\$24,747.00	\$27,862.00	12.59
136	67,545	0.38	53	73	27	\$22,200.00	\$24,630.00	10.95
137	29,942	0.23	45	88	12	\$8,689.00	\$9,505.00	9.39
138	18,569	0.44	32	61	39	\$7,188.00	\$7,609.00	5.86
139	18,514	0.39	41	92	8	\$6,762.00	\$7,332.00	8.43
140	27,097	0.27	48	80	20	\$8,168.00	\$8,764.00	7.30
141	56,521	0.36	41	49	51	\$18,589.00	\$23,868.00	28.40
Total	7,714,915					\$2,078,541.00	\$2,324,878.00	
Average	53,576	0.34	50	56	44	\$14,434.31	\$16,144.99	13.02

American Business Media

**Nicholas Cavnar
(ABM-T-1)**

Response of ABM to TW et al./ABM-T1-1**TW et al./ABM-T1-1:**

Please provide a list of all Hanley Wood owned or operated publications and the projected rate impact (in dollars and as a percentage of current postage) upon each title if the proposed rates were implemented.

RESPONSE

The Hanley Wood Periodicals titles are listed below.

We have not calculated the impact of the proposed rates on any of these titles. As noted in my testimony, we currently co-palletize our periodical mailings, and do not expect to be adversely impacted, as would be the case if we did not have a co-palletization program available to us.

Aquatics International
Builder
Building Products
The Concrete Producer
Custom Home
The Journal of Light Construction
Multifamily Executive
Pool & Spa News
ProSales
Public Works
Remodeling
Replacement Contractor (*currently Periodical Pending*)
Residential Architect
Tools of the Trade

Response of ABM to TW et al./ABM-T1-2**TW et al./ABM-T1-2:**

Have you conducted any analyses to determine if any changes in mailing behavior could be made to mitigate the impact of the proposed rates upon the Hanley Wood publications? If the answer to this is yes, please provide copies of all such analyses and the data on which they were based (e.g., mail.dat files).

RESPONSE

No. Please note that my testimony makes no statement regarding impact of the proposed rates on Hanley Wood publications, whether adverse or favorable.

Response of ABM to TW et al./ABM-T1-4**TW et al./ABM-T1-4:**

- a. Who performs the presort for Hanley Wood publications?
- b. Does this provider utilize parameters that define minimum package size, minimum sack size, and minimum pallet size prior to actually performing the presort?

RESPONSE

- a. Presort for the majority of our magazines is performed by fulfillment

services:

- Omeda Communications, Northbrook IL, for Aquatics International, Building Products, The Concrete Producer, Custom Home, Multifamily Executive, ProSales, Remodeling, Replacement Contractor, Residential Architect, and Tools of the Trade
- Palm Coast Data, Palm Coast FL, for Builder and The Journal of Light Construction

Our printer, RR Donnelley, provides presort for two magazines: Pool & Spa News and Public Works.

- b. Yes, both the fulfillment services and Donnelley employ sortation software that functions as described.

Response of ABM to TW et al./ABM-T1-5**TW et al./ABM-T1-5:**

Please identify the printer and the printer's location for each Hanley Wood publication.

RESPONSE

All publications printed by RR Donnelley in Pontiac IL.

Response of ABM to TW et al./ABM-T1-6**TW et al./ABM-T1-6:**

One page 3, line 10, when referring to Hanley Wood's co-mailed titles, you indicate: "Currently, we net only a one percent savings, based on the cost of single entry postage." Have you evaluated your savings under multiple entry postage? If so, please provide copies of all such analyses and the data on which they were based.

RESPONSE

You appear to have misunderstood the testimony to which you refer.

Perhaps I was too cryptic.

Under our current agreement with RR Donnelley, our payment for co-palletization and drop-shipping is computed as the difference between actual postage paid and 99% of what postage would have been without the co-palletization program. Thus, we net a 1% guaranteed savings compared to the postage we would have paid without co-palletization.

"Postage we would have paid" is typically single-entry postage for our smaller magazines, so we save a net 1% of the single-entry amount. However, if a magazine has enough copies to palletize and drop ship some copies on its own, "postage we would have paid" includes the net drop shipment savings for the individual title. Only residual copies that would have mailed in sacks enter the co-palletization program.

Response of ABM to TW et al./ABM-T1-7**TW et al./ABM-T1-7:**

Please provide an advertising rate card for all Hanley Wood publications.

RESPONSE

Copies of the rate cards for our Periodicals have been provided.

Response of ABM to TW et al./ABM-T1-8**TW et al./ABM-T1-8:**

On page 21, line 11, you state: "I believe that many Periodicals mailers would see their rates increase above the Standard rates, creating it would seem, an ECSI penalty." Please identify the titles that you have analyzed to reach this conclusion and provide the analysis for each such title. Please provide any mail.dat file and any spreadsheet file used in your analysis.

RESPONSE

My statement is not based upon analysis of any particular titles but upon my own experience in the industry, including a very recent experience when my company actually switched two publications from the Periodicals rate to the Standard rate.

As to my general assessment, I know that the postage cost differential between Periodicals and Standard rates varies with many factors, with weight probably being the most important. I believe that heavy Periodicals tend to pay a bigger penalty when switching to Standard rates. However, a very general rule of thumb used by some in the industry is that Standard rates will be about 20% higher than Periodicals rates. Therefore, if the complainants' rate proposal would raise the rates for a large number of Periodicals by 20% or more, it is fair to assume that many of those would wind up paying more as Periodicals if they mailed at the Standard rate. I note that 21 of the publications shown on Exhibit LB-1 would experience increases of greater than 20%. That's about 15% of the 142 individual titles on the exhibit. Eleven, or almost 8%, have increases over 40%, which would almost certainly push those to costs higher than they would pay at Standard rates. If you extrapolate to the 25,000 or more Periodicals in

Response of ABM to TW et al./ABM-T1-8

the mail, I think that my statement about “many” Periodicals is shown to be accurate.

The recent experience to which I’ve referred occurred at the beginning of 2002, when Hanley Wood moved two magazines from Periodicals to Standard Mail, after the Postal Service reversed an earlier ruling on the qualification of a sponsored subscription program. I discovered that the actual difference in postage was considerably less than 20%, especially for lighter-weight publications. In fact, the February 2002 issue, weighing 3.3 ounces, mailed at Periodicals rates and paid 25.5 cents per copy. The April 2002 issue, exactly the same size and weight, mailed at Standard rates and also paid 25.5 cents per copy.

Based on that experience, I did not need extensive analysis to conclude that the Periodicals rate for other publications with similar mailing characteristics could easily be pushed higher than Standard rates by the proposal in the complaint.

Response of ABM to TW et al./ABM-T1-9

TW et al./ABM-T1-9:

Please refer to your testimony at p. 1, ll. 2-3, where you state that "American Business Media members publish approximately 1,500 business-to-business and professional periodicals."

- a. Is it your belief that these periodicals are predominantly sent to recipients who are engaged in business or the professions on a for-profit basis? If your answer is other than "yes," please state your belief or best estimate as to the approximate proportion and indicate what you base it on.
- b. Do you agree that the recipients of periodicals published by ABM members *relating to the business or profession in which they are engaged on a for-profit basis* value these publications primarily as an aid to the successful pursuit of that business or profession? If not, please explain the basis of any disagreement.
- c. Do you agree that most periodicals published by ABM members face competition from other publications (whether or not published by ABM members) that are in some respects similar to themselves? If not, please explain the basis of any disagreement and provide your best estimate of the proportion of periodicals published by ABM members that face such competition.
- d. What proportion of periodicals published by ABM members are "requester" (or "controlled circulation") Periodicals? If you do not know, please provide your best estimate and indicate what you base it on.

RESPONSE

- a. Yes.
- b. Yes.
- c. Yes.
- d. Approximately 80%, based on information from ABM staff.

Response of ABM to TW et al./ABM-T1-10

TW et al./ABM-T1-10:

Please refer to your response to TW et al./ABM-T1-8. You state that you did not analyze any particular titles to substantiate your belief that many publications would switch to Standard mail if the proposed rates were to take effect, but that your experience justifies such a conclusion. You indicate that your experience indicates roughly a 20% present rate differential between Periodicals and Standard, and point to the fact that eleven, or about eight percent, of the publications in witness Bradfield's exhibit LB-1 are shown with increases over 20%. Extrapolating the eight percent "to the 25,000 or more Periodicals in the mail," you claim that this shows your initial claim, about many Periodicals converting, to be accurate.

- a. Are you familiar with the postal regulations for preparing Standard flats in sacks?
- b. Are you familiar with the differences in make-up requirements between Periodicals and Standard flats?
- c. Are you familiar with the 125 pieces or 15 pounds minimum for sacks of Standard flats, as spelled out in DMM sections M610.4 and M820.5?
- d. In drawing the conclusion that many Periodicals would switch to Standard if the proposed Periodicals rates were to take effect, did you assume that those Periodicals could simply switch to Standard rates without any change in preparation method? If no, what types of changes did you think they would make?
- e. Would it surprise you if a detailed analysis were to show that practically all the Periodicals whose postage would increase by 20% or more under the proposed rates are entered in sacks that contain far less than the minimum that would be required if they were mailed under Standard rates?
- f. Please assume, for the purpose of answering the following, that the proposed rates are about to be implemented and that a given Periodical faces a 25% postage increase. Assume further that the mailer investigates the use of Standard rates and learns that he would pay only 20% more than at present, i.e., 5% less than he would have to pay under the new Periodicals rates. However, he also learns that in order to qualify for Standard rates, his publication would have to be prepared differently, using many fewer sacks, and that with such a change in preparation method he could qualify for Periodicals rates that are no higher than those he used to pay, or 20% less than what he would have to pay under Standard rates. Under the above hypothetical, what do you believe is the likelihood that the mailer would: (1) stay with Periodicals rates, make no change in preparation method and therefore pay 25% more postage than before, (2) change his preparation method to qualify for Standard rates and pay 20% more under Standard rates; or (3) change his preparation method but stay with

Response of ABM to TW et al./ABM-T1-10

Periodicals rates and pay no more in postage than at present? Please explain your answer and indicate what other factors you believe might affect this mailer's decision.

RESPONSE

- a. Not in great detail.
- b. Again, I am aware that there are differences, but am not versed in the details.
- c. Yes.
- d. The point of my testimony seems to have been misunderstood. I made no statements or inferences regarding publishers switching to Standard mail if the proposed Periodicals rates were to take effect. I merely stated that for smaller publications lacking workable options for co-mailing or co-palletization, the proposed rates could push their cost for Periodicals postage higher than the cost of Standard mail.
- e. No, that would not surprise me.
- f. I believe that the likelihood of a publisher taking any of the steps above would vary according to factors beyond the cost of postage only. Publishers are also highly concerned about delivery standards and service to subscribers. If the only way a publication could lower costs—whether as Periodicals or Standard mail—was to put all copies on mixed-ADC sacks or pallets, and if that caused a serious degradation in service compared to sacks, then publishers might well feel unable to change their preparation methods.

Response of ABM to TW et al./ABM-T1-11**TW et al./ABM-T1-11:**

Please refer to your answer to TW et al./ABM-T1-1. Is your confidence that Hanley Wood's titles would not be adversely impacted by the proposed rates based solely on the fact that you use co-palletization? If no, please explain which other characteristics of your titles you believe would insulate them against any adverse impact of the proposed rates.

RESPONSE

I should make clear that I am not completely confident Hanley Wood's publications would escape adverse impact if the proposed rates were adopted. However, I do not expect a severe impact because our use of co-palletization has substantially reduced the number of containers used in preparing our mail, which would reduce the impact of the container charge proposed in those rates. We also have access, through our printer, to a very extensive network for drop-shipping, and so might actually benefit from the proposed zoning of editorial rates. I can think of no other characteristics of our titles that would insulate them from adverse impact.

Response of ABM to TW et al./ABM-T1-12**TW et al./ABM-T1-12:**

Please refer to your answer to TW et al./ABM-T1-2. Assume that the proposed rates are implemented. Even if you have not analyzed it fully, please describe what if any changes you believe Hanley Wood would make in its current mailing practices? Please explain also what role you personally would play in defining, planning and implementing such changes.

RESPONSE

If the proposed rates were implemented, we would work with our fulfillment houses (which provide our presort service) to determine the actual impact of the rates and of any possible changes in our mail preparation. If there were an adverse impact, or if we saw any opportunities for substantial additional savings, we would work with our printer, R.R. Donnelley, to determine whether our current co-palletization and drop-shipping could be enhanced in any way, without deterioration of our delivery standards.

My own role would be to make the final decision on adopting any changes, using the analysis and information provided by our vendors.

Postal Rate Commission
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 ABM-T-1

BEFORE THE
 POSTAL RATE COMMISSION
 WASHINGTON, D. C. 20268-0001

COMPLAINT OF TIME WARNER INC. ET AL.
 CONCERNING PERIODICALS RATES

Docket No. C2004-1

DIRECT PREPARED TESTIMONY OF NICK CAVNAR
 ON BEHALF OF AMERICAN BUSINESS MEDIA
 (September 9, 2004)

1 My name is Nick Cavnar, and I am appearing on behalf of American Business
 2 Media. American Business Media members publish approximately 1,500 business-to-
 3 business and professional periodicals and pay approximately \$300,000,000 per year to
 4 do so. Most also operate websites associated with their publications, and many publish
 5 newsletters, operate trade shows and offer data products and services.

6 I will cover several issues in my testimony, including:

7 (a) Hanley Wood's experience with co-palletizing, and what we have
 8 learned from it,

9 (b) witness Mitchell's error in assuming that advertising revenues,
 10 especially for business-to-business publications, can be viewed on a per-
 11 subscriber basis and the related issue of whether publishers would really
 12 limit circulation geographically as a result of differential postage rates,

13 (c) ECSI value, including both (i) witness Gordon's troubling but,
 14 fortunately, uninformed and erroneous testimony that apparently seeks to
 15 prove the increasing irrelevance of hard copy periodicals and (ii) the
 16 complainants' myopic view of ECSI value and how it should be reflected in
 17 rates,

18 (d) the complainants' prediction that, even though increased worksharing
 9 did not "drive costs from the system" in the past, it will in the future, and

20 (e) an overview of American Business Media's position in this docket.

1 Autobiographical sketch

2 I have worked in magazine publishing for more than 30 years, starting in 1973 as
3 an editor for a small non-profit periodical in Ann Arbor, MI. Since 1986, my career has
4 focused on circulation management for business magazines, and I am currently Vice
5 President of Circulation for Hanley Wood, LLC, of Washington, DC. My circulation
6 career has included jobs with some of the largest business-to-business publishers in the
7 country, including Crain Communications, International Thomson, Cahnerns Publishing
8 (now Reed Business Media), Primedia Business Media, and now Hanley Wood. In
9 these positions, I have worked closely with 180 magazines, ranging from a weekly
10 consumer publication with 200,000 subscribers to highly-targeted business magazines
11 serving less than 15,000.

12 My area of expertise is circulation development and business strategy, and I do
13 not pretend to be a specialist in distribution. However, I have been actively involved in
14 postal issues for a number of years, serving on the American Business Media
15 Government Affairs and Postal Committees since 1996, and serving on the USPS
16 Mailers Technical Advisory Committee for two years from 1998 to 2000.

17 Co-palletizing

18 Co-palletization and co-mailing, as the complainants suggest, is increasingly
19 enabling smaller circulation publications to move from sacks to pallets, but it is not and
20 will not be available to many periodicals for a number of reasons.

21 I have been closely involved with co-palletizing programs for smaller circulation
22 magazines. I participated in a committee that worked with the Postal Service in 2003 to
3 develop the trial co-palletization discount of \$.007 per copy. My company then became

1 the first publisher to utilize a co-palletization program introduced in June 2003 by our
2 printer, RR Donnelly, at their Bolingbrook IL facility. Hanley Wood mails twelve
3 magazines as periodicals, and all twelve are now co-palletized in Bolingbrook and then
4 shipped for direct entry at points around the country. We are able to co-palletize even
5 our smallest periodical, a magazine for swimming pool builders that mails only 17,000
6 copies.

7 For our magazines that otherwise would mail almost completely in sacks, with a
8 single entry point, we have seen direct postage savings in the range of fifteen percent.
9 Hanley Wood's net savings from the program are substantially less, of course, since we
10 must also pay for the cost of co-palletization and shipping. Currently, we net only a one
11 percent savings, based on the cost of single entry postage. We expect that as more
12 publications enter the co-palletization pool at Donnelley and as more co-palletization
13 and co-mail operations are started, as is happening, both competition and declining
14 administrative costs will increase our net savings. Future rate increases, with or without
15 rate design changes, should do the same.

16 Our commitment to co-palletization goes beyond immediate postage savings,
17 however. We recognize that making periodical mail more efficient for the Postal Service
18 can help to contain our rates long term by driving cost out of the system. We
19 understand that sacks are a cost issue, and we have in fact achieved a dramatic
20 reduction in the use of sack. For example, our magazine The Concrete Producer, which
21 previously sent its 20,000 copies in 445 sacks, used only 8 sacks in its most recent
22 mailing. A recent co-palletization pool at Donnelly reduced sack usage from 2,806, if
23 each magazine had been mailed individually, to only 79.

1 Based on our own success with co-palletization, Hanley Wood is actively
2 encouraging other business magazine publishers to work with their printers to expand
3 these programs. I presented a seminar on co-palletization for the American Business
4 Media in January 2004, and will be speaking on the subject at the National Postal
5 Forum here in Washington on September 21. To judge by interrogatories recently
6 directed to American Business Media, it even appears that my efforts have been
7 noticed—appreciatively, I hope—by the complainants.

8 Precisely because I am speaking with many other publishers on this subject,
9 however, I am very aware that not all periodicals can be palletized, at least today.
10 Other American Business Media witnesses have explained, as has the complainants'
11 witness Schick, that publication frequency, trim size, inserts, and circulation size either
12 alone or in combination can preclude certain publications from participation in co-
13 mailing or co-palletization. In my own discussions, I have learned that some publishers
14 experience substantial service delays with co-palletization and drop shipping, compared
15 to mailing in sacks. This has not been a great problem for Hanley Wood, but most of
16 our magazines are monthlies and bi-monthlies that are not highly time-sensitive. I have
17 worked with time-sensitive magazines at other companies, and I can appreciate that a
18 single day's difference in delivery time can be critical in retaining subscribers and
19 advertisers.

20 Even if an individual magazine may be well suited for co-palletization, not all
21 magazine printers can offer their clients this service. Hanley Wood is fortunate to work
22 with one of the nation's largest printing and distribution companies. RR Donnelley
3 already owned facilities and equipment that could be adapted to create a co-

1 palletization line. But many printers do not have the volume of periodicals, or the
2 equipment and floor space, to create a similar operation.

3 For the foreseeable future, and especially if the Postal Service does not develop
4 a container than can replace sacks, there will be publications that have no choice but to
5 continue mailing mail in sacks—either because alternatives are precluded by their
6 mailing characteristics and delivery requirements, or because they do not have the
7 service available to them. If Periodical rates are restructured as proposed by the
8 complainants, these publications will be heavily penalized. Ultimately, that will affect not
9 only the publishers, but also their subscribers, especially those who become most costly
10 to serve.

11 Advertising Revenues

12 Complainants' witness Mitchell seeks to demonstrate that publishers' profits from
13 each subscriber are so high that they would never seek to trim subscribers with very
14 high postage costs. In order to prove the unprovable, witness Mitchell develops a
15 complex formula that essentially increases advertising revenue by the average of ad
16 revenues per subscriber for each additional subscriber and reduces ad revenues by that
17 amount for each eliminated subscriber (Tr. 860-61). When asked directly whether he
18 assumes advertising revenue to be directly proportional to the number of subscribers,
19 he agreed that he did "on a long-term equilibrium basis" (Tr. 993).

20 Mr. Mitchell stumbled when asked to explain what "long-term equilibrium basis
21 means," stating (Tr. 1219) that he is dealing with "general tendencies." He explained
22 that if a periodical obtains a new subscriber it "doesn't run out the next day and raise
3 their advertising rates" but that "it might be a while before they change their advertising

1 rates." His examples, however, as well as his formula seem to assume a short-term
2 response.

3 It is clear that witness Mitchell does not understand how publishers, at least
4 publishers of business-to-business and other special interest periodicals, set advertising
5 rates and collect advertising revenues. This lack of awareness is not surprising, since
6 Mitchell has never been employed to produce a periodical (Tr.886), has never
7 purchased or sold periodical advertising (Tr. 887-88), and has never worked in or as a
8 consultant to anyone in the advertising business (Tr. 889).

9 As someone who has actually developed and managed circulation for nearly 200
10 magazines, I can easily identify the fallacies in Mr. Mitchell's arguments.

11 First, Mitchell believes that in at least "most cases," advertisers are given a
12 "promised" level of circulation (Tr. 1220) and, presumably, that if they do not meet that
13 level, advertising revenues decline, perhaps on a "long-term equilibrium basis." Had Mr,
14 Mitchell examined Time Warner's published advertising rates before being asked to do
15 so during cross-examination, he would have seen that his guaranteed rate base
16 hypothesis is untrue and that, even where there is a guarantee, there is no reason to
17 believe that the loss of a minimal number of subscribers will have any affect whatsoever
18 on advertising revenues.

19 For example, during cross-examination (Tr. 1222-23), witness Mitchell was
20 directed to the rate card for Time magazine's national edition (which is in the transcript
21 at Tr. 1281). He believed that the "rate base" of 4,000,000 was a commitment to
22 advertisers, but he did not know whether a shortfall would lead to a rebate requirement,
3 nor did he know whether publishers traditionally exceed their rate bases.

1 Mr. Mitchell was then asked to look at the rates for Time's state editions (in the
2 transcript at Tr. 1283), and he was directed to the fact that the same per page
3 advertising rate applies to Alaska, with a rate base of 10,000, Connecticut, with a rate
4 base of 75,000, and New Jersey, with a rate base of 150,000 (Tr. 1224). Although
5 Mitchell conceded (Tr. 1225) that "[t]his is an issue I haven't thought about," I, on the
6 other hand, have thought about it, and it is perfectly clear that the advertising rates for
7 Time's state editions are hardly circulation dependent. It is inconceivable that if the
8 circulation of the New Jersey edition were reduced to 148,000, its ad rate would decline,
9 given that it is now the same rate as an advertiser pays for 75,000 copies in Connecticut

10 Just as Time magazine does not use the same "rate base" approach for its state
11 editions as in its national advertising rates, other magazines published by Time Warner
12 do not base their rates on a one-to-one ration with circulation. The much smaller,
13 90,000 circulation, special interest publication Motocross (Tr. 1226-29) does not even
14 use the term "rate base," but instead refers to a "circulation projection." Mr. Mitchell
15 professed (Tr. 1228-29) that he did not know how these terms should be interpreted.
16 From my years of experience with business-to-business publications, I do know the
17 difference. A guaranteed rate base is just that, a guarantee to the advertiser of a
18 specified circulation, with a rebate obligation if that level is not met. A circulation
19 projection does not imply a guarantee, and individual issues may fluctuate from the
20 specified level.

21 Since circulation fluctuates from month to month, publishers with stated rate
22 bases typically maintain a cushion. If such a publisher chooses to reduce subscribers in
3 an area or of a certain type, it can do so safely as long as the margin is not eliminated

1 and, presumably, as long as circulation efforts are stepped up in other areas if the
2 publisher wishes to maintain its rate base and cushion.

3 In my experience, the notion of a guaranteed rate base is associated primarily
4 with general interest publications, such as Time, and not special interest publications,
5 such as Motocross and, especially, business-to-business publications. The former are
6 selling access to "eyes." That is, advertisers, while interested in the demographics of
7 the readers, are primarily buying a certain numbers of readers.

8 For special interest and business-to-business publications, advertisers care far
9 more about the quality of the readership. They want to reach only people who are truly
10 involved in a particular field, and therefore likely to buy their products. That is why the
11 detailed demographic information in our audited circulation statements is so important.
12 Most business-to-business publishers could, and do at times, trim the total number of
13 subscribers without affecting the quality of the readership in the eyes of the advertiser or
14 the page rate paid by advertisers. More importantly for purposes of refuting witness
15 Mitchell's formula, we can reduce our readership marginally—or even more than
16 marginally—without affecting either our promise to advertisers (because there is none)
17 or our page rates.

18 For example, Hanley Wood purchased the magazine Tools of the Trade from
19 another company in December, 1997. At the time of acquisition, Tools of the Trade had
20 been serving an average 80,680 qualified subscribers per issue. With the first issue
21 under Hanley Wood's ownership, we reduced the circulation to 75,102 subscribers. Ad
22 rates were not reduced correspondingly—on the contrary, the 1998 rate card increased
3 from the previous year. Why were advertisers willing to pay a higher rate for a smaller

1 circulation? Because the reduction was achieved by eliminating "lower quality"
2 subscribers, which in that case meant individuals who were not identified as
3 professional construction contractors and subcontractors.

4 In January 2002, we reduced the circulation of Tools of the Trade again, from
5 75,000 to 65,000, while again increasing ad rates. Again, advertisers accepted the
6 reduction because at the same time we improved the "quality" of the circulation, this
7 time by greatly increasing the percentage of subscribers who had personally requested
8 a subscription within one year.

9 Tools of the Trade illustrates how business-to-business publishers can and do
10 constantly shift the composition of our circulation to deliver the right market for our
11 advertisers while lowering our own cost. It is very common for us, especially with
12 request publications (for which there is no subscription charge), to refuse service to
13 subscribers we deem marginal without affecting either our promise to advertisers
14 (because there is none) or our page rates.

15 Mitchell uses the publication Pit & Quarry as an example in the application of his
16 formula, concluding that the "implied profit" from a zone 8 subscriber to this request
17 publication is \$100.37 (Tr. 863), driven, of course, by his assumption that it would lose
18 1/24,000ths of its advertising revenue if it ceased delivery to that subscriber. Unlike Mr.
19 Mitchell, I have examined the relevant section of Pit & Quarry's latest media kit, where it
20 makes no rate base promises but mentions the same 24,000 circulation noted by
21 witness Mitchell. It also shows how many subscribers in 2002 were "qualified," how
22 many are officers, administrative executives and department heads, how many are

1 sales and marketing subscribers, and how many of its subscribers qualified in the past
2 year.

3 I have also examined data concerning Pit & Quarry's advertising rates and
4 circulation. It shows:

PIT & QUARRY
Rate card and circulation history

<u>Year</u>	<u>Full page 1x b/w rate</u>	<u>BPA qualified av. circ.</u>	<u>BPA total circ.</u>
1996	\$ 4,521	23,449	24,828
1997	\$ 4,520	23,577	25,359
1998	\$ 4,520	23,479	25,129
1999	\$ 4,791	23,463	25,664
2000	\$ 5,130	23,665	25,961
2001	\$ 5,179	24,247	25,834
2002	\$ 5,340	23,873	25,469
2003	\$ 5,500	23,762	25,193
2004	\$ 5,890	23,794	25,353 (June only)

5 For most advertisers, the only number that matters is qualified subscribers.
6 These data show, for example, a decline in average circulation from 2001 to 2002 of
7 410 qualified subscribers, or 1.7%, but an increase in the rate for a black and white
8 page of 3.1%. As is obvious, Pit & Quarry's ad rates and therefore revenues do not
9 vary with modest changes in circulation. Rather, like ad rates in general, including I'm
10 sure for the complainants, they vary with the market, the economy and other factors. I
11 am confident that Pit & Quarry could cut a few hundred subscribers from its rolls without
12 suffering the loss of advertising revenues hypothesized by witness Mitchell.

3 Mitchell seems further unaware that, even if a publisher were to consider each
14 subscriber in some way responsible for a pro rata share of advertising revenue, we also

1 constantly evaluate subscribers by their cost to acquire and serve. We compare the
2 cost of acquiring and renewing subscribers by direct mail to the cost of telemarketing or
3 broadcast email, and shift our sources accordingly. We also look at any factors that
4 would increase the cost to serve a particular subscriber, including and especially the
5 cost of postage.

6 For example, Hanley Wood publishes a number of controlled circulation
7 magazines for professionals involved in residential construction and design, including
8 Building Products, Custom Home, Residential Architect, Remodeling, and the
9 aforementioned Tools of the Trade. None of these magazines offers controlled
10 subscriptions in Canada, even though we could easily find qualified professionals in
11 Canada and even though many of our advertisers market their products in Canada as
12 well as the United States. The reason is simply that cost of mailing issues into Canada
13 is roughly five times the cost of postage within the United States.

14 I have spent a good deal of time on this issue, because, like witness Mitchell, I
15 think it is important. At the rates and schedule proposed, not only would the zoning of
16 editorial content cause certain copies to experience larger rate increases than a
17 publication's other subscribers, but other features, such as the very large sack charge
18 proposed, would cause an enormous increase in rates for many copies that, for one
19 reason or another, must be mailed in small sacks. At an extreme, I point to witness
20 Stralberg's agreement (Tr. 237) that a single piece in a sack could cost as much as
21 \$3.70 to mail. Therefore, the temptation to reduce circulation to save a disproportionate
22 amount of postage, or to market in particular areas, could affect not only subscribers far
23 from the entry point but also subscribers in less densely populated areas of the country,

1 where building large sacks might be impossible. If costs for serving different
2 subscribers within the United States varied as much as or more than the current cost for
3 mailing into Canada or Mexico, I am quite confident that publishers would find ways to
4 identify and restrict the most expensive subscriptions.

5 ECSI Value and Periodicals Rates

6 Through witness Gordon, the complainants claim to be addressing the limited
7 question of whether a flat editorial rate is still necessary to assure that the nation is
8 bound together by the wide distribution of periodicals. I believe that Gordon's testimony
9 goes well beyond that issue and that the complainants' presentation fails to address the
10 proper role of ECSI value in the setting of Periodicals rates.

11 I found witness Gordon's testimony to be very troubling, and, frankly, I cannot
12 understand why Time Warner and the other complainants would sponsor the testimony
13 of a witness who apparently believes that periodicals are obsolete and that the print
14 medium, which he suggests is no longer necessary, has no further need for preferred
15 rates. I understand that Gordon's testimony had as its limited purpose to persuade the
16 Commission that zoning the editorial pound rate will not cause harm to the flow of
17 information, even if some subscribers no longer receive hard copy publications, since
18 equivalent information is allegedly available on cable television and the Internet. But it
19 certainly appears to go well beyond that.

20

1 I suggest that the Commission should re-read the following excerpt from the
2 transcript (at 704):

3 Q You don't believe that it's superfluous and unjustifiable for
4 periodicals to enjoy lower rates because they have editorial content?

5 A I think it is far less necessary now. I think I'm not at all sure that it
6 accomplishes or helps to accomplish in any significant way the object.

7 Q Well, I think you just told me two things. You said you don't think it
8 superfluous and unjustifiable, but then I think you went on to say that it's
9 pretty much superfluous and unjustifiable.

10 Let me ask you again. Is a rate preference for periodicals based on
11 ECSI value superfluous and unjustifiable?

12 A I think, yes, a rate preference is. I think the object of binding the
13 nation together intellectually and culturally is a great social good.

14 Q But the rate preference for periodicals doesn't contribute to that
15 good?

16 A Not any more I don't think.

17 I know that after this exchange received some publicity in the trade press, a
18 spokesperson for Time Warner explained that Gordon misspoke and that he was
19 confused between the rate preference received by periodicals for their ECSI value,
20 which was the subject of the questions, and the flat editorial pound rate, which the
21 complainants oppose.

22 Any witness can become confused, and I do not wish to hold Mr. Gordon to
23 higher standard than I hope will be applied to me when I appear for cross-examination.
24 Neither of us is a professional witness and, I believe, neither of us has ever testified
25 before. Nevertheless, I find the defense of Mr. Gordon and the attempt to explain away
26 his views simply demonstrates that he lacks the perspective and experience to offer
27 views on postal rates, given other exchanges during his cross-examination. For

1 example, although in Gordon's response to *written* cross-examination, where he had the
2 advantage of having his responses at least reviewed by counsel and others, he agreed
3 with the proposition that "Periodicals bind the nation together by providing a common
4 source of information," when alone on the witness stand he was not so sure. He was
5 asked whether, because of television and the Internet, Periodicals are less important in
6 binding the nation together than they once were, and he answered "Yes" (Tr. 714).
7 When asked whether the nation would be "less bound together than it is now" if there
8 were no periodicals, he said "I suppose so, but not by a significant matter" (Tr. 715). If
9 no Periodicals were sent to Alaska and Hawaii, he says (Tr. 715), residents of those
10 states would be "only marginally" less integrated into the fabric of society than they are
11 today.

A few minutes later, the cross-examining counsel had changed, but Gordon's
13 views had not. The following exchange took place (Tr. 739):

14 Q You indicated this morning, and correct me if I'm wrong, that in your
15 view preferential postage rates play no role in contributing to the extent to
16 which publications help bind the nation together.

17 A I believe that it's marginal at best at this point.

18 Make no mistake about the fact that American Business Media and I vehemently
19 disagree with Mr. Gordon. We believe, as does Time Warner witness Schick (Tr. 501),
20 that reflection of ECSI value in rates continues to be important to maintenance of a
21 "healthy, vibrant, and diverse" Periodicals class. Fortunately, that is fortunately for all
22 Periodicals mailers including the complainants, there are sound grounds for rejecting
23 Gordon's views on the continuing importance of Periodicals in binding the nation
4 together.

1 His basic thesis is that television and, to a greater, extent the Internet have
2 rendered periodicals redundant. Yet he does not appear to have the background and
3 experience to draw this conclusion. While he reads a number of publications on a
4 regular basis (Tr. 635), he reads no specialized business periodicals on a regular basis
5 (Tr. 636-37). Although he gives opinions on the printing industry and the feasibility of
6 printing at multiple plants (Tr. 622), he has no experience in that industry and professes
7 to have the knowledge of “an informed layman” (Tr. 660). Yet despite his testimony
8 about the availability of multiple plant printing, he did not know whether all periodicals
9 can cost-effectively be printed at multiple plants today (Tr. 662). I think that an
10 “informed layman” ought to be able to answer a resounding “no” to that question. As
11 the record shows (Tr. 129), the complainants print only six publications at multiple
plants, all weeklies with multi-million circulation. The fact that no monthlies, even the
13 very heavy ones that would presumably benefit the most from avoided transportation,
14 print at more than one plant shows that it cannot be done economically today. It shows
15 as well that witness Gordon’s suggestion (Tr. 617 and 622) that changes in printing
16 technology affect the need to bind the nation together with rate preferences for
17 Periodicals should be given no weight.

18 Deserving of more serious attention but no different conclusion is Gordon’s view
19 that the Internet has made hard-copy publications unnecessary. Once again, Gordon’s
20 lack of knowledge—and in fact his own website—serve to undermine this view. The
21 interrelationship between hard-copy publications and both associated websites and
22 unrelated websites covering the same topics is a complicated one that Gordon’s
} simplistic views about everything being available on line do little to elucidate.

1 Many or perhaps most American Business Media member publications now
2 operate related websites. I understand that in some of those cases the content of the
3 website duplicates that in the publication (and may contain updates as well), while some
4 do not. Some have associated charges, and some do not. Time Warner witness
5 Mitchell recognized (Tr. 1137) that, in general, publishers' web sites do not contain the
6 entire publication or its advertising content.

7 Again, I can refer to my own company's experience. Hanley Wood publishes 20
8 magazines in all. We also have a very successful eMedia division that provides web
9 sites and email newsletters, incorporating content from our magazines along with
10 unique online content. However, we maintain web sites for less than half the
11 magazines, and even our most robust web sites do not attempt to carry all of the
12 editorial and advertising information available in the related magazine.

13 As shown by some of the material quoted in Time Warner's interrogatories to
14 American Business Media, the great majority of business-to-business media
15 companies, like Hanley Wood, do see the Internet as crucial to their financial futures.
16 We recognize that our readers now look to the Internet—as well as the hard copy
17 publication—for information. The ability to offer both readers and advertisers multi-
18 media exposure is moving from a nice fringe benefit to essential. But with very few
19 exceptions, and those tend to be in the high-tech industries, publishers are not even
20 considering the abandonment of hard-copy publications. The Internet provides value
21 added but well less than full value. And, I might add, I strenuously disagree with the
22 notion that, because Mr. Gordon's Google search for the type of information contained
3 in Automotive News, Fire Engineering, Mayo Clinic Proceedings, and the New England

1 Journal of Medicine produced, for example in the case of Automotive News, more than
2 half a million hits, information of the kind and quality that appears in that publication is
3 available on any of them or even all of them combined (Tr. 771-79). Even witness
4 Gordon did not bother to look at any of the sites to which Google directed him to
5 determine the nature of their content (Tr. 780-81). He also agreed (Tr. 713-14) that it is
6 far easier to put information on the Internet than to publish it in a periodical, which to
7 me means that one must be more suspicious about the accuracy and thoroughness of
8 the former, a point driven home by Gordon's own inaccurate web site (see Tr. 647-49
9 and 711). Gordon admitted (Tr. 710) that if he published a newsletter with the same
10 type of information that appears on his website, it would be more accurate.

11 It ought to be clear that if a publication folds due to high costs, such as high
12 postage costs, its website(s) are highly likely to disappear along with it. Websites can
13 and do provide incremental advertising revenue, but not enough to replace the print
14 advertising that in turn supports the editorial content of the publication (along with its
15 distribution). Therefore, there should be no serious debate about the fact that, if a
16 publication carrying important information ceases publication, the broad dissemination
17 of information will be adversely affected.

18 I expect that Time Warner will answer that, at least insofar as some publishers
19 might trim high-cost subscribers, web sites of the publisher, or even digital versions of
20 the publications, will provide a viable substitute. Mitchell testified (Tr. 818) that even if
21 (contrary to his hypothesis) some publications did drop a portion of their subscribers,
22 the information available elsewhere would prevent any adverse affect on the "unity or
3 cohesion of the nation." Unfortunately, the fact is that no matter how important the

1 information, the number of people who are willing and able to access it electronically,
2 which would often require hours of reading off a computer screen, are limited. While
3 Hanley Wood and, I suppose, virtually all publishers believe that the information they
4 produce is vital to the industries or other constituencies that they serve, we recognize
5 that many of our readers simply will not accept the same information on a computer.

6 Having worked with publications serving a wide variety of industries, I am
7 particularly aware that access to and usage of electronic media still varies greatly in our
8 markets. Hanley Wood, for example, serves many small building and remodeling
9 contractors who do not spend their work day at a desk in front of a computer. Certainly
10 they use electronic media, but it may not be as accessible and easily used as a printed
11 publication they can carry with them to a job site. I can see their attachment to the print
12 media even in response to our direct marketing for new subscribers and renewals: We
13 enjoy significantly higher response rates to traditional direct mail and printed renewal
14 forms in this market than I have seen in high technology industries such as
15 telecommunications. In other words, different industries and population segments
16 require different mixes of media.

17 It also remains true that many rural and remote areas of the country still do not
18 enjoy the same quality of Internet and even telephone service as urban areas.
19 Unfortunately, these are the same subscribers who could become most costly to serve
20 under the rate structure proposed by the complainants. So the individuals most
21 susceptible to losing their printed magazine subscription due to high postal cost might
22 also have greater difficulty accessing an electronic replacement.

1 If all of our subscribers today would prefer to receive content exclusively by
2 electronic media, and if the advertisers would spend enough to cover our reduced costs,
3 why would any of us be publishing hard copy? Time magazine alone could save the
4 cost of printing and mailing 200 million pieces a year, probably close to \$100 million, if
5 the Internet truly provided a viable alternate to print media. But it does not. If postage
6 rates unnecessarily rise to the point where some publications, or some significant
7 portion of some publications, can no longer be mailed economically, the flow of
8 information will suffer, and the mandate to bind the nation together will not be met.

9 From the focus of their testimony, it would be fair to conclude that the
10 complainants view ECSI value and its role in setting rates more narrowly than American
11 Business Media and I do. They seem to think that it's relevant only to the issue of
12 whether or not the flat editorial pound rate should be retained, and they appear to
13 believe that the Commission will have done all it needs to do to recognize ECSI value if
14 it continues the low cost coverage for Periodicals, particularly for editorial content
15 through editorial pound and piece discounts, while letting the rest of the postal "chips"
16 fall where they may. See Tr. 933, where witness Mitchell asserts that the degree of rate
17 "attractiveness" for all periodicals should be the same.

18 We have a different view. We think that when Congress insisted that ECSI value
19 be considered, it sought to ensure that the Commission recognized, in the famous
20 words of Congressman Ford, that "a book, a magazine or a newspaper has more
21 intrinsic value to the public than a brick" and that periodicals are granted a rate
22 preference in order to bind the nation together through the broad dissemination of
23 information. We believe that the Commission may and in some circumstances must

1 assess the overall impact of a rate proposal and its potential effect on segments of the
 2 periodicals industry with ECSI value in mind, and it is not enough simply to say that
 3 every pound of editorial matter gets the same discount, so no more is needed.

4 The Commission has long recognized that it is required to provide for the
 5 widespread dissemination of information, as part of its responsibility to "bind the Nation
 6 together through the personal, educational, literary, and business correspondence of
 7 the people." Opinion in R090-1 at ¶ 5279, quoting 39 U.S.C. § 101(a). It said there that
 8 it "will not recommend a rate structure that will impair" the special treatment of editorial
 9 content. Although the Commission in that case applied these concepts in rejecting an
 10 earlier proposal by witness Mitchell (then testifying for the Postal Service) to zone
 11 editorial content in order to send the proper price signals and improve fairness (see ¶
 12 5275), the concepts of ECSI value and broad dissemination of ideas need not be limited
 13 to the flat editorial rate. In Docket No. MC91-3, pages 6-7, the Commission found:

14 Similarly, we find that the national policy in favor of the
 15 widespread dissemination of information is intended to
 16 encourage the availability of both large and small circulation
 17 publications, and to keep the Postal Service as a viable
 18 carrier for the national delivery of all types of publications.

19 In this case the Commission should also consider the needs of "all types of
 20 publications," of "both large and small circulation publications," and if it does so, I
 21 submit, it will not endorse the complainants' recommendations.

22 Nor must it do so in order to assure that the complainants receive significant
 23 credit for their publications' ECSI value, for they already enjoy substantial savings. One
 24 way to measure that credit is to compare the rates they now pay with the rates they
 25 would pay if they mailed at the Standard rates (or, if they weigh more than a pound, the

1 Bound Printed Matter rate)—that is, the rates that apply to similar pieces that are not
2 given ECSI credit. Witness Stralberg provided that rate comparison for several of the
3 complainants' publications (Tr. 108). As he shows there, the differential is very large.
4 For example, Time magazine pays 17.76 cents per copy at the present rates and would
5 pay 23.35 cents per copy at Standard rates. That difference of 5.59 cents, or an "ECSI
6 discount" of about 24%, saves Time Warner more than \$11,000,000 per year (at
7 approximately 200 million copies per year). Readers Digest receives an "ECSI
8 discount" of 8.26 cents per copy, or 29%, for annual savings of nearly \$11,000,000 (at
9 approximately 128 million copies per year). At the proposed rates, these differentials
10 would increase by about \$5,000,000 each.

11 By contrast, at the rates proposed, I believe that many Periodicals mailers would
12 see their rates increase above the Standard rates, creating, it would seem, an ECSI
13 penalty. That would be the case for the hypothetical but "representative" non-drop
14 shipped publication used by witness Mitchell in response to ABM/Time Warner-T1-93
15 (Tr. 989), as shown by McGraw-Hill witness Schaefer. I do not know how one can
16 reconcile a rate schedule that charges more for many Periodicals than they would pay
17 at the Standard rates with a statutory requirement that ECSI value be recognized in
18 Periodicals rates and that rates for Periodicals bind the nation together.

19 Finally, in this regard, I would like to respond to allegations that, under the
20 present rate schedule, larger publications subsidize smaller ones. I cannot deny that
21 different publications pay different percentages of "their" attributable costs, and I think
22 that we all agree that 100% editorial publications pay less than attributable costs, as do
23 no doubt many others with the mark-up as low as it has been in recent years. But I do

1 not accept that publications paying higher mark-ups are necessarily subsidizing those
2 with lower or no markups. It is possible that the publications with lower than average
3 mark ups are being “subsidized” by mailers in other classes. In other words, it may be
4 that the present per copy rates of lower than 18 cents now paid by, among others, Time,
5 Entertainment Weekly, Newsweek and TV Guide would not be lower but for the rate
6 preferences for the publications that are their target in this case. It is equally plausible
7 that, but for those preferences, the lowest Periodicals rates would be the same, but the
8 class mark up over attributable costs would have been maintained at a somewhat
9 higher level by virtue of greater revenues from the allegedly high-cost publications
10 targeted here.

11 In other words, assume that in the past few cases the Commission had decided
12 that rates for small circulation publications must be even higher because of the costs
13 that they impose on the postal system, as the complainants allege here. It is possible
14 that the Commission could have assigned the additional revenues not to a reduction in
15 the rates paid by the complainants and others similarly situated but to payment of
16 institutional costs in order to increase the cost coverage closer to its historic level.

17 In order to give the Commission some indication of the important and, I submit,
18 irreplaceable content of business-to-business publications, I have attached two exhibits.
19 Exhibit NC-1 is a press release related to the fiftieth anniversary of American Business
20 Media’s Jesse H. Neal National Business Journalism Awards, which honor excellence in
21 business-to-business editorial content. Exhibit NC-2 provides brief synopses of recent
22 award winners and, I hope, will help the Commission understand that the type of

editorial content in business-to-business publications cannot be replaced by cable television shows or Google searches.

Driving Costs from the System

The linchpin of the complainants' case, other than the large rate decreases they would enjoy, is that rates must be changed in order to change mailers' "behavior," and that such behavior changes will "drive costs from the system." In other words, if mailers can only be given incentives to prepare their mail differently and increase the level of worksharing, postal service processing costs will decline, and the seemingly inexplicable upward pressure on rates in the past will ameliorate or reverse.

In the words of the Complaint that initiated this proceeding (pages 4-5):

For the past seventeen years, Periodicals mail processing costs have been rising and Periodicals mail processing productivity has been falling, despite extensive efforts by both the Postal Service and mailers to bring about more efficient Periodicals handling.

This theme was repeated by the complainants' witnesses. For example, witness Mitchell agreed (Tr. 912) that for the past twenty or so years, mailers took steps that should have reduced Postal Service processing costs and (Tr. 1029-30) that:

inordinate increases in the attributed costs and rates of Periodicals mail have occurred since the early 1990s *despite* significantly increased use of pallets, increased dropshipping and increased worksharing of other types by Periodicals mailers during that period.

My question is, if the significant changes made by all segments of the Periodicals industry in the past twenty years did not have the expected effect of "driving costs out of the system," why should we believe that similar changes in the next few years will have that effect? There is an adage that is often, although I think incorrectly, attributed to Sigmund Freud that goes "insanity is doing the

1 same thing over again and expecting different results.” I do not believe that the
2 complainants are insane, but when asked to confirm the possibility that the effort
3 to develop new price signals and to respond to them might have little effect on
4 Postal Service costs, witness Mitchell would not even confirm that possibility (Tr.
5 1106). Interestingly, that question was asked by the Postal Service itself, which
6 leads me to believe that it might doubt that forcing mailers to change the way
7 they present their mail (if they can) will result in significant cost savings.

8 I believe it was Time Warner witness Stralberg himself who coined the
9 phrase “automation refugees” to explain why processing costs did not decline as
10 they should have with automation (Tr. 298). As I understand it, the basis for the
11 automation refugee hypothesis is that the Postal Service has difficulty reducing
12 costs as activity in specific functions declines, possibly because personnel that
13 become excess are reassigned to functions where additional labor is not
14 necessarily needed. I have seen nothing that convinces me that that the same
15 phenomenon will not continue to exist, for whatever reason. Of course, if my
16 fears are correct, then rates that assume cost reductions that do not exist will
17 soon have to be raised as cost coverage drops into the negative zone, leaving
18 behind those publishers, who may become former publishers, who were unable
19 to respond to the price signals and faced rate increases of 30%, 50% and even
20 80%.

21

1 Conclusion

2 American Business Media does not have a final position at this stage of
3 the proceeding. Nevertheless, certain conclusions will not change as the record
4 develops further. One is that, notwithstanding witness Gordon's discussion of
5 technology changes, print publications—ours and the complainants'—are not
6 anachronisms, and television and the Internet are not now and will not in the
7 foreseeable future be viable substitutes for print publications. If postage rates
8 cause there to be fewer Periodicals, or cause some Periodicals to reduce
9 circulation in distant or rural areas as a result of rate design, the nation will be
10 worse off for it. Another immutable conclusion is that even though some
11 publications can change the way they present mail to make it less costly for the
12 Postal Service to handle, those changes are underway and increasing today,
13 without the need for new "price signals." And, finally, even the complainants do
14 not deny that some publications, because they have valid service issues, or they
15 are weeklies, or they have very small circulations, or they are printed by very
16 small printers in out-of-the-way locations, will not be able to avoid punishing rate
17 increases if the rate structure and level proposed were to be implemented.

18 At this point, therefore, American Business Media's position is that it
19 cannot support and must oppose significant structural changes likely to increase
20 rates for many Periodicals without:

- 21 1. An alternative to sacks for those that cannot palletize.
- 22 2. Protection for mailers that cannot change.
- 23 3. Better information on the effect of Delivery Point Sequencing,
24 Automated Package Processing and other upcoming
25 changes.

- 1 4. A convincing case that the Postal Service can actually capture
theoretical savings.
- 3 5. Reasonable notice and phasing of major changes (just as
- 4 Congress phased the major changes required in the Postal
- 5 Reorganization Act).

EXHIBIT NC-1

IN ITS 50th YEAR, A JOURNALISM COMPETITION IS TOUGHER THAN EVER

A record 1,283 entries vie for the 2004 Neal Awards; this year's ceremony will pay tribute to all past recipients and to one courageous editor

NEW YORK, Feb. 26, 2004— *Washington Technology* exposes 60 government officials who obtained phony degrees from diploma mills. Editorials in *University Business* tackle the inability of colleges to prepare students for survival in a complicated world. *CSO* teaches readers how to prevent competitive espionage and intellectual property theft. *Workforce Management* takes HR leaders to task for the executive compensation practices that have scandalized Wall Street.

These are among the 78 finalists for the 50th Annual Jesse H. Neal National Business Journalism Awards, which honor b-to-b editorial excellence. The finalists were chosen from a record 1,283 entries, making this year's Neal Awards the most competitive ever. Winners—and the recipient of a new award recognizing editorial courage and integrity—will be announced at a luncheon ceremony on Thursday, March 18, at The Waldorf=Astoria in New York.

For the last two years, stories related to 9/11 and terrorism seem to have dominated the work of Neal finalists. Now, business-to-business publications have returned to an emphasis on the craft of industry reporting. The Neal Board of Judges remarked that this year's finalists presented fresh angles and unexpected points of view—evidence that editors are working harder than ever to provide new information in their core topics.

Several of the finalists broke major news. One of the more dramatic examples: *Aviation Week & Space Technology* was the first to write about the Columbia shuttle's reentry photo showing damage to the left wing—a scoop later picked up by the general news media.

At the 2004 Neal Awards ceremony, a new award recognizing editorial courage and integrity will be introduced: the Timothy White Award, named after the longtime editor of *Billboard* magazine who passed away unexpectedly in June 2002. White was known to artists and music moguls alike as “the conscience of the music industry,” and this new award will be given to an editor whose work exemplifies the passion, courage and integrity that White displayed in his career. There is no entry fee, and the deadline for entries is Monday, March 1. Visit www.americanbusinessmedia.com for more information.

Also being honored at the 2004 Neal Awards are Vernon Henry, Advanstar's corporate editorial director, who will receive the Crain Award for lifetime achievement; and Aric Press, editor in chief of *The American Lawyer*, recipient of the 2004 McAllister Editorial Fellowship.

The Neal Awards are open to members of American Business Media, the association for b-to-b information providers. American Business Media's member companies represent over 3,000 print and online titles and reach an audience of 90 million professionals.

EXHIBIT NC-2, Page 1 of 2

EXAMPLES OF NEAL AWARD WINNERS, 2003

Article: **Tech Alert**
 Publication: *CIO*
 Award: Grand Neal Winner

CIOs manage the business lifeline in a language few understand – which translates into blame, headaches and flare-ups amidst a sprinkling of credit. Career survival hinges on keeping sane while keeping the peace with bosses who don't know a bit from a byte.

Enter *CIO*, with a special issue of hands-on advice from seasoned peers on every aspect of the job and life. From how to run a Microsoft-free shop to how to refuse homework to how to neutralize the CFO, readers get practical information on timely topics, from their perspective and in their tone.

Article: **Deadly Dilemmas**
 Publication: *Photo District News*
 Award: Best Article

Increasingly, photojournalists face a choice: your integrity or your life. From a U.S. government that buys photographers' allegiance, to rebels who stage events and threaten cameramen with assault rifles, the power of the press now puts young hopefuls in a risk-or-die bind.

How do you strike a balance between industry ethos and personal responsibility? How do you sniff out "spin" in strange situations? *Photo District News* answered these essential questions with grit, showing the smarts, dedication and courage it takes to discern truth from propaganda in a world where combatants are out to work the media.

Article: **Blunt Conscience**
 Publication: *Editor & Publisher*
 Award: Best Staff-Written Editorials

Scolding Tennessee dailies for striking a "Faustian bargain" that undermines the cause of open government. Lauding a local Cincinnati paper that took down a bullying water treatment conglomerate and made municipal water quality a national issue. Week to week, *E&P's* editors take on an industry that can bite back, and they never back down. *E&P* does what many media fear most: hold an industry up to its professed standards, naming names in the process. Challenging readers with thinking while shedding light on events whose import might otherwise be missed has earned *E&P* the nickname of "industry conscience."

Article: **Terror Ready**
 Publication: *RN*
 Award: Best Article Series

How do you prepare for an unprecedented epidemic? *RN* published the definitive series for registered nurses on the front lines of anxiety, mixing comprehensive treatment protocols with first-hand counsel from a military nurse. From recognizing the biological, chemical, and nuclear agents that would be used in a terrorist attack, to preventing the spread of diseases they create, to caring for people who have been exposed – the series covered it all. But it didn't stop there: A final installment showed RNs how to assess the readiness of their facilities, and what to do if they're found lacking.

EXHIBIT NC-2, Page 2 of 2

EXAMPLES OF NEAL AWARD WINNERS, 2003

Article: **Higher Purpose**
 Publication: *Architectural Record*
 Award: Best Staff-Written
 Editorials

As an architect and editor, Robert Ivy calls industry design colleagues to their profession's social, political and human dimensions in terms that can be described as poetic. He celebrated the late architectural great Sam Mockbee for "going to war" against the housing conditions plighting the poorest of the poor, while urging colleagues to lift the curtain on social injustice and find creative ways to serve the needs of neglected markets. He attacks cronyism, pushes for government advocacy of design, and calls on the architectural community to stand up to bureaucrats and preserve historical buildings.

Article: **Eye Source**
 Publication: *Review of Optometry*
 Award: Best Article Series

Can your doctor do genomics?

Genetics is on the fast track, and doctors have to sprint to keep up. Since scientists first used gene therapy (genomics) to restore vision in dogs blinded by disease, the rate for human eye treatments has sped to full-throttle. Avoiding progress isn't an option; genetic counseling, diagnosis, and treatment are eventual norms that will determine doctors' careers. *Review of Optometry's* four-part series answered the critical questions about a brave new world of diagnostic tools, customized drugs and DNS disease predictors for people who have our sight in their hands.

Article: **Need for Speed**
 Publication: *QSR*
 Award: Best Magazine Issue

In fast food, one second can mean \$100 in sales. Some chains make upwards of 60 percent of revenues from drive-thru customers, so pushing motorists "through the loop" is every bit a science. *QSR's* "Best Drive-Thru in America" issue is an anticipated event for such quick-service restaurateurs, who need uncommon depth of information to keep up to pace. From charts that detail service times and order inaccuracies (Do employees more often forget the napkins or give the wrong topping?), to in-depth interviews with industry stars, *QSR* gives readers the inside track.

POSTAL RATE COMMISSION

RECEIVED

2004 NOV 12 A 9 56

COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES

Docket No. C2004-1
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

DECLARATION

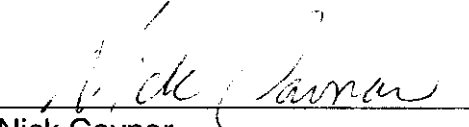
I, Nick Cavnar, hereby declare under penalty of perjury that:

The *Direct Prepared Testimony of Nick Cavnar on Behalf of American Business Media*, denominated ABM-T1, was prepared by me or under my direction;

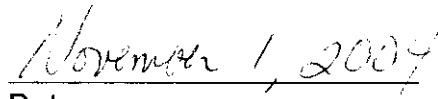
Were I to give this testimony orally before the Commission, it would be the same.

The interrogatory responses filed under my name were prepared by me or under my direction; and

Were I to respond orally to the questions appearing in the interrogatories, my answers would be the same.



Nick Cavnar



Date

American Business Media

**Joyce McGarvy
(ABM-T-3)**

Response of ABM to TW et al./ABM-T3-1**TW et al./ABM-T3-1:**

Please provide a list of all Crain Communications owned or operated publications and the projected rate impact (in dollars and as a percentage of current postage) upon each title if the proposed rates were implemented.

RESPONSE

Crain's titles are listed in response to Time Warner et al./ABM-T3-5. The impact of the rate proposal on those titles is shown on Exhibit LB-1, lines 76-87. Please note that the entry on line 77 is a composite of five co-palletized titles, and the entry on line 78 is a composite of nine co-palletized titles.

Response of ABM to TW et al./ABM-T3-2**TW et al./ABM-T3-2:**

Have you conducted any analyses to determine if any changes in mailing behavior could be made to mitigate the impact of the proposed rates upon the Crain Communications publications? If the answer is yes, please provide copies of all such analyses and the data on which they were based (e.g., mail.dat files).

RESPONSE

Yes, at the request of counsel we ran some comparisons of the results of changing our sack minimums, although this was a purely hypothetical calculation, because we believe that increasing our sack minimums would produce unacceptable service deterioration.

An objection was filed on September 23, 2004 to the portion of this request seeking the results of this analysis and the data on which they were based.

Response of ABM to TW et al./ABM-T3-4**TW et al./ABM-T3-4:**

- a. Who performs the presort for Crain Communications publications?
- b. Does this provider utilize parameters that define minimum package size, minimum sack size, and minimum pallet size prior to actually performing the presort?

RESPONSE

- a. Crain Communications performs its own presort.
- b. Yes.

Response of ABM to TW et al./ABM-T3-5

TW et al./ABM-T3-5:

Please identify the printer and the printer's location for each Crain Communications publication.

RESPONSE

Advertising Age	Quad Graphics, Sussex, Wisconsin
Automotive News	Quad Graphics, Sussex, Wisconsin
BtoB	Quad Graphics, Sussex, Wisconsin
Business Insurance	Quad Graphics, Sussex, Wisconsin
TelevisionWeek	Quad Graphics, Sussex, Wisconsin
Crain's Cleveland Business	RR Donnelley, Pontiac, IL
Investment News	RR Donnelley, Pontiac, IL
Modern Physician	RR Donnelley, Pontiac, IL
Modern Healthcare	RR Donnelley, Pontiac, IL
Rubber and Plastic News	RR Donnelley, Pontiac, IL
Waste News	RR Donnelley, Pontiac, IL
Pensions and Investments	RR Donnelley, Pontiac, IL
Tire Business	RR Donnelley, Pontiac, IL
RCR Wireless News	RR Donnelley, Pontiac, IL
Crain's Chicago Business	RR Donnelley, Pontiac, IL
Plastic News	RR Donnelley, Pontiac, IL

Response of ABM to TW et al./ABM-T3-5

AutoWeek	RR Donnelley, Torrance, CA/Pontiac IL
Crain's Detroit Business	Quebecor World, Midland, MI
Ad Age's Creativity	Brown Printing, East Greenville, NY
Plastic News	Brown Printing, East Greenville, NY
Coin-Op	Banta, Long Prairie, MN
American Dry Cleaners	Banta, Long Prairie, MN
Laundry News	Banta, Greenfield, OH

Response of ABM to TW et al./ABM-T3-6**TW et al./ABM-T3-6:**

On page 1, line 8, you state: "It appears to me, however, that the Time Warner restructuring proposal- especially with the rates suggested but not directly at issue here – is too much, too fast." Please indicate, based on your experience in MTAC and POAC, how long the Postal Service and the mailing industry have been exploring cost-based rates.

RESPONSE

Based upon my total experience with and knowledge of postal rate matters, it seems to me that the Postal Service and the mailing industry have been exploring, and implementing, cost-based rates since the Postal Rate Commission was created and since the first rate case in 1971. As I understand it, the second-class rate was increased by about 100% in that case (on a phased basis), based on cost data. Since that time, additional cost-based elements, such as different presort levels, destination entry, bar codes and a pallet/sack differential, have been added to make the rates "more cost-based."

If you are referring to what is known in the industry as the "O'Brien grid," which suggested more fine-tuning as in the rates proposed in the complaint, I believe that has been around for a few years.

Response of ABM to TW et al./ABM-T3-7**TW et al./ABM-T3-7:**

Please refer to page 8, line 14, of your testimony. Are there publishers who allow their printer and or fulfillment house to perform analysis on their distribution and make recommendations on “how best to ‘package’ a mailing”?

RESPONSE

Yes.

Response of ABM to TW et al./ABM-T3-8

TW et al./ABM-T3-8:

Please refer to your testimony at p. 6, ll. 13-17, where you state: " I know from the study we and a few other American Business Media members did of the impact of the proposed rates, the results of which were provided to Time Warner in discovery and provided as an exhibit to Lou Bradfield's testimony, that rate increases of 50% and more under the proposed rates would not be rare."

- a. Please confirm that the "study" referred to applied the proposed rates to the current mailing practices of a sample of ABM-member publications. If not confirmed, please explain.
- b. Please confirm that the "results" of the "study" referred to accurately represent the "impact" of the proposed rate on the publications studied only if one assumes that *those publications will be entirely unable to adapt their current mailing practices in response to the economic incentives created ny [sic] the proposed rates.* If not confirmed, please explain.
- c. Please confirm that your testimony does not report the results of any study, by yourself or others, of the ability of any publication or group of publications to adapt their mailing practices in response to the proposed rate changes. If not confirmed, please explain.

RESPONSE

8 a. Confirmed. In retrospect, the word "study" may have implied too much. What several others and I did was to take a recent issue, and, using the mail.dat file and a program developed by Time Warner, calculated the postage charges at the proposed rates

b. Of course I confirm, since right after the sentence you quote, I go on to say: "I recognize that in some of those cases it would be possible, in theory, to reduce the increase to a significant extent. . . ." Also, witness Bradfield, who introduced the study, said at page 6, lines 12-15: "The numbers do assume no change in mailing practice, and there is no doubt that for some of these publications, the increase in postage can be ameliorated, or in certain cases perhaps even reversed, if mailers take such steps as

Response of ABM to TW et al./ABM-T3-10

increasing sack size, co-mailing or co-palletizing.” Your question implies that I failed to recognize this fact.

c. Confirmed.

Response of ABM to TW et al./ABM-T3-9**TW et al./ABM-T3-9:**

Please refer to your testimony at p. 8, ll. 13-18, where you state: "if rates were as proposed by Time Warner, the task of figuring out how to best "package" a mailing would be enormous and, I would think, simply beyond the capability of many small publishers. I know that we were not even able to calculate the postage at the proposed rates with our present mailing characteristics without mail.dat files (that not all publishers produce) and a new program developed by Time Warner."

- a. Please confirm that by "we," you mean Crain Communications. If not confirmed, please identify the persons to whom "we" refers.
- b. Please confirm that the same "we" who "were not even able to calculate the postage at the proposed rates with our present mailing characteristics without mail.dat files . . . and a new program developed by Time Warner" are not able to calculate postage at the *current* rates without mail.dat files and a program that was developed *subsequent to* the Commission's recommendation of the current rates. If not confirmed, please explain.

RESPONSE

- a. Confirmed
- b. Not confirmed. We generate mail.dat files for all of our publications, but many small publishers do not use mail.dat files, and they are able to calculate postage at the present rates. We could as well.

Response of ABM to TW et al./ABM-T3-10**TW et al./ABM-T3-10:**

Please refer to your testimony at p. 12, ll. 11-15, where you state: "the five companies initiating this case would save, collectively, more than \$50 million annually at the rates they propose without changing a thing about the way they prepare and present their mail, and without saving the Postal Service a penny." Assume that a mailer changes its mailing practices, e.g., by moving a portion of its mail out of sacks onto pallets and beginning to dropship a portion of its mail, and that as a consequence the costs to the Postal Service of handling that mail are reduced. Under the assumptions described, do you agree that the mailer has changed the way it prepares and presents its mail, saving the Postal Service a penny (or more)? If you do not agree, please explain fully.

RESPONSE

I agree, based upon your assumption that moving some mail from sacks to pallets and drop shipping some mail does in fact save the Postal Service money. The reason I must stress this point is that, as I recall, under the complainants' proposed rates, there are instances where moving mail from heavy sacks to light pallets would actually increase rates and, supposedly, Postal Service costs. But I recognize that in the usual case, moving from sacks to pallets and then drop shipping reduces costs.

Response of ABM to TW et al./ABM-T3-11**TW et al./ABM-T3-11:**

Please refer to your statement cited in the previous interrogatory and additionally to your statement at lines 21-23 on the same page: "The postage savings would not reflect any incremental cost reductions to the Postal Service, because there are no changes in mailing necessary to achieve them." Please make the same assumptions as in the previous interrogatory and the further assumption that, subsequent to the changes in mailing practices described, a rate reduction is implemented for the purpose of recognizing both the lower Postal Service costs that will result from the continuation into the future of the mailer's changed mailing practices (rather than reversion to its previous practices) and the adoption of the same practices by other mailers.

- a. Under the assumptions specified, is it your position that the postage savings to the mailer who had adopted the changed practices prior to the rate change "would not reflect any incremental cost reductions to the Postal Service, because there are no changes in mailing necessary to achieve them"?
- b. If your answer to part a is other than an unqualified no, please confirm that your recommended policy of denying rate recognition to cost-saving practices that have already been undertaken (1) makes impossible the achievement of lowest combined mailer/USPS costs and (2) causes the disparity between actual costs and lowest combined costs to increase over time, as cost-saving mail characteristics that are unrecognized in rates multiply and accumulate. If not confirmed, please explain.

RESPONSE

- a. Yes. In the situation you present, the mailer made the changes and the Postal Service enjoyed the assumed cost savings under one set of rates. If the rates are later changed, the rate reduction to that mailer will not reflect any incremental savings to the Postal Service, although if other mailers adopt the practice being rewarded, there will be incremental savings. I don't think that this is a complicated concept. Before the introduction of bar code discounts, some mailers were barcoding their mail. Then the discount was introduced, and more mailers barcoded their mail. I'm sure that the Postal Service had to estimate the revenue loss associated with the rate reduction for first set of mailers, for which there would be no incremental cost savings.

Response of ABM to TW et al./ABM-T3-11

Another way to look at this is to assume that there is no “adoption of the same practices by other mailers.” And let’s go back to the barcode example. If after the introduction of the barcode discount there had been no more barcoding than there was before its introduction, there would have been lower revenues but, because there were no incremental cost savings, no savings to offset the revenue reduction. If at the time the cost coverage hovered near zero, an immediate rate increase might have been necessary, all because there was no “incremental” cost saving.

It would be wrong to read too much into this answer. I am not saying that it is never appropriate to reflect in rates practices that are already in place for some mailers, either to encourage those practices in others or even to make the rates more fair. I supported the barcode discount, even though some were already barcoding, and the existing pallet discount, even though many were already palletizing. That support does not change the fact, however, that there were mailers who enjoyed rate reductions without changing a thing and without being responsible for incremental cost savings.

b. As I just stated, I have no “recommended policy” of denying rate recognition to cost-saving practices that have already been undertaken. I was merely pointing out that there will be big savings to the complainants with no incremental cost reductions. Although Time Warner’s costing experts are better equipped to respond to these questions, I do believe that, if I had such a recommendation, which again I do not, implementation of such a policy would likely make it impossible to achieve lowest combined mailer/USPS costs absent unusual circumstances. Such unusual circumstances would include a situation in which all mailers are set in their ways and

Response of ABM to TW et al./ABM-T3-11

the mailer practice that saved USPS costs didn't cost the mailer anything, or was less costly than not undertaking the practice. I have in mind, for example, walk-sequencing of saturation mail lists, which I understand is basically part of virtually any obtained list, and so, again as I understand it, walk sequencing which saves the Postal Service money costs the saturation mailer nothing. I also have in mind palletization of large volume mailings, which can be less expensive for the mailer than sacking the same mailings. But I don't mean to quibble with you. I understand that if none of the changes proposed here are implemented, lowest combined mailer costs will not be achieved. I also agree with statement in part (2) of the question that if cost saving characteristics continue to be developed but are not recognized in rates, the disparity will grow. If as in the past some cost savings characteristics are recognized and some are not in order to reflect policies other than "lowest combined cost," this effect will be diminished.

Response of ABM to TW et al./ABM-T3-12**TW et al./ABM-T3-12:**

Please refer to your testimony at p. 13, ll. 6-12, where you state:

It would be far preferable, I submit, for the Postal Rate Commission at the conclusion of this case to encourage the Postal Service to investigate and study all of the issues raised in this proceeding, and to propose in the next case any rate structure changes, with associated rates, that it believes will both encourage mailers to continue the move away from sacks and give some degree of protection to those mailers who, due to their size, their business models or other factors would not be able to avoid large, crippling increases if the proposals did not account for their existence.

Please confirm that your testimony does not identify or demonstrate the existence of even a single mailer who "would not be able to avoid large, crippling increases" under the rates proposed. If you do not confirm, please name or describe with specificity every mailer whom your testimony so identifies.

RESPONSE

I can confirm that my testimony does not identify a single mailer who would not be able to avoid large, crippling rate increases under the rates proposed. This is a very competitive business, and a business that for the past several years has not done well financially, as advertising revenues dropped significantly. When publications are in financial trouble, publishers tend not to want to broadcast that fact, since that information would be useful to competitors and to those who might be thinking about acquiring the publication at a bargain price. That is a major reason why you don't see testimony from an American Business Media member saying "my publication is in serious financial trouble, we're too small or publish too frequently to be a good co-mail candidate, and the proposed 45% rate increase would be the death knell for us." The complainants themselves have taken the reasonable position that not every Periodical mailer is in a position to change the way it presents mail in order to avoid the brunt of the increases they propose, and they cannot deny that, without such changes, some publications will experience double digit—and in some cases high double digit—rate increases. I don't think it's necessary to identify specific publications that

Response of ABM to TW et al./ABM-T3-12

meet these descriptions to contend that they exist. And even if I were able to identify ten such publications, I suppose the response would be to the effect that I'd identified only ten out of twenty-five thousand or more.

Response of ABM to TW et al./ABM-T3-13

TW et al./ABM-T3-13:

In response to TW et al./ABM-T3-5 you list the Periodicals published by Crain Communications, along with the printers serving each publication.

- a. Please specify the frequency (e.g., weekly, biweekly, monthly, etc.) for each of the listed publications.
- b. Please provide at least a rough estimate of the average percent editorial content of each publication.
- c. Please refer to your response to TW et al./ABM-T3-4 and indicate, for each Crain publication, the minimum number of pieces per sack normally specified when you develop the presort for a given issue.
- d. Which, if any, of Crain's publications are airlifted to some locations in order speed delivery?
- e. Which, if any, of Crain's publications do not maintain a website at which some or all of their editorial contents can be accessed?
- f. Which, if any, of Crain's publications do not on their websites provide news that is updated more frequently and accessible to the subscribers sooner than the printed version?
- g. Which, if any, of Crain's publications limit access to the editorial contents on their websites to paying subscribers?

RESPONSE

- a. See chart below.
- b. See chart below.
- c. The minimum number is six in all cases.
- d. Advertising Age, Automotive News, Business Insurance, TelevisionWeek, Investment News, Modern Healthcare, Waste News, Pensions & Investments, Tire Business, RCR Wireless, Plastics News.

Response of ABM to TW et al./ABM-T3-13

- e. Coin-Op, Drycleaner, and Laundry News do not.
- f. All of the publications with websites may update their information between issues, although all of the new content may not appear in the next issue.
- g. Based upon the further explanation that “paying subscribers” refers to people who pay for either a hard copy subscription or pay for web access (or both), I believe after inquiry within the company that Modern Physician, B-to-B, Waste News and Pensions & Investments are the only Crain websites that do not have unlimited free access. I have been advised, however, that within the next couple of months both Autoweek and Televisionweek will begin to limit access to paying customers and that, within six months, Workforce will as well.

CHART FOR 13a. AND 13b.

<u>PUBLICATION</u>	<u>FREQUENCY</u>	<u>EDITORIAL %</u>
Advertising Age	Weekly	51%
Automotive News	Weekly	43%
BtoB	Monthly	51%
Business Insurance	Weekly	53%
TelevisionWeek	Weekly	55%
Crain's Cleveland Business	Weekly	51%
Investment News	Weekly	52%
Modern Physician	Quarterly	67%
Modern Healthcare	Weekly	59%
Rubber and Plastic News	Bi-Weekly	66%
Waste News	Bi-Weekly	58%
Pensions and Investments	Bi-Weekly	53%
Tire Business	Bi-Weekly	58%
RCR Wireless News	Weekly	54%
Crain's Chicago Business	Weekly	46%
Plastic News	Weekly	23%
AutoWeek	Weekly	58%
Workforce Management	Monthly	55%
Crain's Detroit Business	Weekly	52%
Ad Age's Creativity	Monthly	53%
Crain's New York Business	Weekly	53%
Coin-Op	Monthly	44%
American Dry Cleaners	Monthly	52%
Laundry News	Monthly	64%

Response of ABM to TW et al./ABM-T3-14

TW et al./ABM-T3-14:

You refer, in your response to TW et al./ABM-T3-1, to two sets of co-palletized titles, represented on lines 77 and 78 of Exhibit LB-1.

- a. Do all the co-palletized titles belong to Crain, or are they co-palletized also with other titles? If they are co-palletized with titles not belonging to Crain, please explain how you accounted for that fact when you estimated the impact of the proposed rates.
- b. Please specify the frequency of publication for the two sets of co-palletized titles.
- c. Do you generally palletize the same titles together each time?
- d. When did Crain start to co-palletize?
- e. Please confirm that Crain was co-palletizing some titles in 2001 and describe any significant changes in the program since then.
- f. What is the minimum pallet weight required in your co-palletization program before making up a pallet to a given destination?
- g. Please confirm that the bundles which do not make it onto a pallet in your co-palletization program are not co-sacked with bundles from other titles but sacked separately for each title. If not confirmed, please explain the procedures used.

RESPONSE

- a. All of the titles belong to Crain.
- b. Set 1 contains 4 weeklies and 1 monthly. Set 2 contains 4 weeklies, 4 bi-weeklies, and 1 monthly.
- c. Yes, depending on the frequency.
- d. About 15 years ago.
- e. Confirmed, and there have been no significant changes since then.
- f. The minimum pallet weight is 250 pounds.

Response of ABM to TW et al./ABM-T3-14

- g. Confirmed.

Response of ABM to TW et al./ABM-T3-15

TW et al./ABM-T3-15:

At page 7 of your testimony you refer to your “concern that the service we need will be seriously eroded if we move, for example, from 5-digit sacks to 3-digit sacks.” You also refer to a Postal Service study at Carol Stream that appeared to show the opposite result of what you had expected, and express concern that the study may have used a too small sample.

Apart from the recent Postal Service study that you refer to, has Crain Communications performed any experiment or analysis to determine, for sacks entered at origin and going to distant post offices, how the presort level of the sack and the bundles in it affect delivery time, all other factors being equal? If yes, please describe the results of any such study along with the methodology used. If no, please state whether you are aware of such studies performed by other mailers and, if you are, what the results were.

If you are aware of only the recent Postal Service study that appeared to contradict your expectations, and not of any other studies from which definite conclusions can be drawn, please explain fully what your concern is based on. Please explain also what you mean by “the service we need” and whether, in your opinion, that service is being met today.

RESPONSE

Crain has not performed and I am not aware of any other studies. It is difficult to “explain fully” the source of my concern. It is based upon my years of experience in the industry and my basic understanding of how the Postal Service operates. Despite the absence of any scientific data underlying my beliefs concerning delivery times, the concerns are real, and we act on them. I know that there are others in the industry who feel the same way, and I have heard from other Periodical mailers that they’ve been told by local postal officials (although I have not been told that myself) that service will be better if they mail in smaller sacks that travel unopened deep into the system. There appears to be a substantial concern among small Periodicals mailers that sacks are less likely to be “lost” and thus delayed than are bundles. The service we need depends upon the frequency of the title, but for weeklies, where our concern is greatest, we need delivery that is both fast and consistent. For monthlies, speed and consistency are somewhat less important, but we still expect, or at least hope, that our publications

Response of ABM to TW et al./ABM-T3-15

will consistently be delivered roughly the same number of days after they are entered into the mail. As for whether the service we need is being received today, I guess the best answer I can give is "usually." We work very hard and spend considerable sums of money, for example for airlifting, in order to obtain the generally good service we receive. There are of course problems that arise from time to time, but Crain is fortunate that it is big enough to have someone in my position, and with my staff, to work with the Postal Service to identify and resolve problems as they arise.

Response of ABM to TW et al./ABM-T3-16

TW et al./ABM-T3-16:

According to the response of ABM to TW et al./ABM-68, you were involved in analyzing the impact of the proposed rates on "Crain and Computerworld publications."

- a. Please confirm that Computerworld is the title of a Periodical.
- b. Did you analyze more than one Computerworld publication? If yes, what were the names of the others?
- c. Please specify the line(s) in Exhibit LB-1 that summarize your analysis of Computerworld titles.
- d. Which ABM member media organization owns Computerworld?

RESPONSE

- a. Confirmed.
- b. Yes. The others were InfoWorld and NetworkWorld.
- c. Lines 88-90 (on both the original and the enlarged, corrected versions).
- d. ComputerWorld is a division of IDG.

ABM-T-3

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES

Docket No. C2004-1

DIRECT PREPARED TESTIMONY OF JOYCE MCGARVY
ON BEHALF OF AMERICAN BUSINESS MEDIA
(September 9, 2004)

1 My name is Joyce McGarvy, and I am submitting this testimony on behalf of
2 American Business Media in order to comment on the rate and restructuring proposals
3 that have been advanced in this proceeding by Time Warner, Newsweek, Readers
4 Digest, TV Guide and Conde Nast (which I will at times collectively refer to as "Time
5 Warner" to make this testimony more readable).

6 As a general matter, I agree that Periodicals mailers should take whatever steps
7 are reasonably possible to reduce their own postage costs as well as the Postal
8 Service's costs (that are, after all, passed through to mailers). It appears to me,
9 however, that the Time Warner restructuring proposal—especially with the rates
10 suggested but not directly at issue here—is too much, too fast. If implemented, they
11 would sacrifice many small publications in order to assure guaranteed rate reductions
12 for Time Warner and would result in speculative, modest benefits, at best, for the
13 Postal Service and most other Periodical mailers. I draw these conclusions not as an
14 economist or a Postal Service costing expert but as a person who, unlike the Time
15 Warner witnesses who presented the proposal, has actually been involved in both

1 producing and distributing Periodicals through the mail. Theory is nice, but reality is
often different.

3 **Autobiographical Sketch**

4 My present position is Corporate Distribution Director for Crain Communications,
5 where I have been employed for twenty-five years. Crain Communications is primarily a
6 publishing company with thirty titles providing vital news and information to industry
7 leaders and consumers. Each newspaper or magazine has become required reading
8 and an authoritative source in its own sector of business, trade and consumer market.
9 In my present position, which I have held for nineteen years, my responsibilities include
10 managing the distribution of all of Crain's weekly, bi-weekly and monthly publications, a
11 job that includes managing the company's postal affairs.

During my years at Crain, I have been very active in the industry. I am presently
13 the Vice-Chair of the Mailers Technical Advisory Committee (MTAC) and President of
14 the Red-Tag News Publications Association. I have served on MTAC for approximately
15 nine years, during which time I served on numerous committees and work groups,
16 including serving as Industry Co-chair for the Electronic Publication Watch and the
17 Electronic Mail Improvement Reporting (eMIR) work groups. I am the Industry Co-chair
18 for the Periodicals Operations Advisory Committee (POAC), and I serve as Industry Co-
19 chair for the Postal Service's Periodicals National Focus Group and the Great/Lakes
20 area, and I am a member of the Periodicals Advisory Group.

21 I have a degree in Transportation from the College of Advanced Traffic, Chicago,
22 IL, a Bachelor's Degree in Business Administration from Cleary College, and a Master's
of Science in Administration Degree from Central Michigan University.

1 Overview

Time Warner proposes a radical restructuring of the Periodicals class that would
3 produce changes far more drastic than those previously rejected by the Commission,
4 such as in its several decisions refusing to zone the editorial pound rate and its decision
5 in the 1995 reclassification case, MC95-1. There appear to be several basic rationales
6 advanced for the proposal, including: (1) present rates are unfair, because some
7 publications pay too much while others pay too little, (2) the present rates do not send
8 the right "price signals," so that mailers are not given the incentives to make their mail
9 less costly for the Postal Service to handle and (3) with proper rates and price signals,
10 most (but not all) mailers will be able to change the way that they prepare their mail and
11 avoid the large rate increases that would otherwise befall them. Underlying much of the
Time Warner presentation is the suggestion that a large number of Periodical mailers
13 are doing things like mailing in low-volume sacks for no good reason—simply because
14 they can without paying a rate penalty.

15 In my opinion, the presentation in support of the changes requested is a mixture
16 of truth, questionable assumptions and wishful thinking. It fails to take into account
17 mailers' desire for better service, the degree to which rates already reflect cost
18 differences and the changes that are now underway in the industry without any
19 additional rate "incentives." And it suggests near indifference to the service and other
20 problems that could confront many publishers of small-circulation Periodicals if they
21 sought to avoid the very large rate increases that a new structure could impose.

22 From the response of the Postal Service to the Complaint and comments of
Postal Service officials in the past few years, it appears that it intends to move forward

1 with certain rate design changes, but to do so with caution in order to make certain that
its mission to "bind the nation together" is not unduly impeded by the unintended
3 consequences of a massive, one-time shift in rate design. Although "ready, fire, aim"
4 may be a valid and profitable corporate philosophy for Quad/Graphics, according to
5 witness Schick (Tr. 442), I do not think that it is an appropriate credo for the Postal
6 Service.

7 **The Industry is Changing**

8 Witness Schick remarked more than once during the hearing that the present
9 rate schedule provides ample incentives for co-mailing (Tr. 403, 504), and he also
10 testified that Quad/Graphics is able under the present rates to justify drop-shipping of
11 Periodicals with editorial content of 15% or even less. (Tr.436) He is absolutely correct.
That is why Crain has five of its small circulation publications co-palletized by
13 Quad/Graphics and nine of its small circulation publications co-palletized by RR
14 Donnelley. All of these co-palletized publications are drop shipped. The present
15 incentives are also why other American Business Media members co-palletize and co-
16 mail and why some of the complainants' publications are co-palletized or co-mailed.

17 Time Warner submitted a number of interrogatories to American Business Media,
18 asking American Business Media to confirm that it has been encouraging its members
19 to investigate co-palletizing and co-mailing and that they are doing so. Combined with
20 the educational efforts of others, including the complainants themselves, printers and
21 other vendors, those efforts now are paying off. I understand that in the past couple of
22 years, monthly publications of American Business Media members, and I would
assume, smaller circulation publications of non-members, have begun to be co-mailed

1 or co-palletized. I have seen full page ads from Publishers Press, which specializes in
shorter run publications, touting its co-palletizing capabilities, and it is well-known in the
3 industry that, last month, Quebecor World announced that it is moving forward with the
4 purchase of two 30-pocket co-mailers and will actively market that service to short-run
5 publications. Even more recently, Fairrington, a transportation services company with
6 substantial involvement in the Periodicals industry, announced that it is moving forward
7 with a consolidation, co-palletization and transportation initiative that, it is hoped, will
8 eventually allow publishers who use printers that cannot co-palletize to have their mail
9 co-palletized and drop-shipped.

10 I know very well, and have worked closely with, key people at Quebecor World
11 and Fairrington and am confident that they would not be investing time, money and
management attention to co-palletizing and co-mailing endeavors based upon
13 speculation that the postal rate structure will change dramatically. Rather, I am certain,
14 or as certain as I can be without being in their board rooms, that they—like
15 Quad/Graphics and Publishers Press—understand that the present postal rates,
16 combined with mailers' desire to get out of sacks whenever they can, have produced an
17 environment in which Periodical mailers are changing and will continue to change. We
18 do not like excessive sack use any more than the printers do, or the Postal Service
19 does, because sacking mail imposes costs on printers that are passed on to us.

20 I know that I cannot predict, and I do not suppose that anyone can, whether the
21 changed mailing patterns that are certain to occur in the next couple of years without a
22 massive rate design shift will move enough mail so that the remaining high-cost mail will
impose a minimal and acceptable burden on the subclass. That is certainly a

possibility, however. When Crain co-palletized fourteen of its publications, we were able to eliminate 900,000 sacks a year from the mail. Multiply that number by the hundreds or thousands of Periodicals that will begin to comail and co-palletize as Quebecor World, Fairrington and others ramp up their operations, and it is apparent that a major shift has just begun.

But There Are Limits to that Change

If all Periodical mailers could move from small sacks to either big sacks or pallets, and from small bundles to big bundles, and could then drop ship their mail, there would be less concern about the rate design (and rates) proposed by Time Warner, assuming of course that their implementation were delayed until the infrastructure changes have taken place. But, unfortunately, it would be a huge mistake to push forward with rate structure and level changes on the assumption that all publishers have the ability to adapt to that rate structure. I know from the study we and a few other American Business Media members did of the impact of the proposed rates, the results of which were provided to Time Warner in discovery and provided as an exhibit to Lou Bradfield's testimony, that rate increases of 50% and more under the proposed rates would not be rare. I recognize that in some of those cases it would be possible, in theory, to reduce the increase to a significant extent (but not necessarily without cost in terms of money and service), but even the complainants recognize that this is not a "no publisher left behind" recommendation.

Crain publishes both weekly and monthly publications, and I'll be the first to admit that a publisher's flexibility with respect to monthly publications is greater than it is for dailies or weeklies. The complainants concede that co-mailing and co-palletizing are

1 extremely problematic for weeklies (Tr. 425), because they must be entered into the
mail immediately after printing and cannot wait around the plant for the several days it
3 takes to complete a co-mail or co-palletizing program. But weeklies and dailies,
4 especially, also cannot simply increase sack sizes, rather than build pallets, to avoid the
5 brunt of the proposed rate increase, because of our concern that the service we need
6 will be seriously eroded if we move, for example, from 5-digit sacks to 3-digit sacks.

7 I recognize that this is a somewhat controversial issue, although witness Schick
8 understood (Tr. 340) that mail in 5-digit sacks is likely to be delivered more quickly than
9 if that mail were on an ADC pallet. As I understand it, there is no *theoretical* reason
10 why, for example, mail arriving at a destination SCF in a 3-digit sack should not be
11 processed and delivered on the same day as mail received at that SCF in a 5-digit sack
that is sent directly from the SCF to the DDU. As a member of the Periodicals
13 Operations Advisory Committee, I also know that, with product supplied by Crain
14 containing Planet Codes (used to track delivery), the Postal Service just completed a
15 very small experiment in Carol Stream, Illinois, to determine whether this belief is
16 accurate. The results of that study were not consistent with our belief that service would
17 be eroded, but everyone involved recognizes that the sample was far too small to permit
18 any conclusions, other than that a better test should be conducted. Because delivery
19 times are absolutely crucial for weekly publications, we cannot afford to make a mistake
20 in this area. In the business-to-business world, if the information is not delivered when it
21 should be, which is often on Monday, the ramifications for the publisher can be very
22 serious. A publisher faced with eroded service or much higher rates would face a
Hobson's choice—a choice I hope that Crain and I never have to make. In fact, for the

1 small test in Carol Stream we were so concerned about service that we did not use our
subscriber copies but added new addresses (of postal employees) for the test copies.

3 The proposed rate structure would present other problems for small publishers
4 as well. Crain is a relatively large and, I submit, sophisticated publisher of short-run
5 publications numbering around 30, with one larger publication (*Autoweek*). It can afford
6 to have a distribution department of the type I head, and it is large enough to be an
7 attractive client for large and sophisticated printers. As a result, we can find a printer,
8 such as Quad/Graphics and RR Donnelley, that will co-palletize our publications, and
9 we have the knowledge, the software access and, frankly, the money that would permit
10 us to at least attempt to weigh rate versus service issues and to make the horrendously
11 complex sacking, palletizing, bundling and drop shipping decisions that would be
necessary for every mailing under the proposed rate structure.

13 Make no mistake about it—if rates were as proposed by Time Warner, the task of
14 figuring out how to best “package” a mailing would be enormous and, I would think,
15 simply beyond the capability of many small publishers. I know that we were not even
16 able to calculate the postage at the proposed rates with our present mailing
17 characteristics without mail.dat files (that not all publishers produce) and a new program
18 developed by Time Warner. One ABM member that wanted to calculate that impact for
19 its publications gave up and asked me to do it. The task of simply calculating the rates
20 for a publication with specified characteristics, which is what we did, is far less
21 complicated than calculating when, for example, it might cost less under the proposed
22 rate structure to mail large sacks than small pallets, where the crossover point lies
between larger, less finely sorted bundles and smaller, more finely sorted bundles, and

1 the myriad other calculations that would have to be made and repeated to minimize
2 postage under the proposed structure.

3 There are other reasons as well why co-palletizing and co-mailing may not be
4 available to, especially, small publishers. There is no escaping the fact that a co-pallet
5 or co-mail program needs a threshold volume to be efficient. It is no accident that
6 nearly all of Quad/Graphics' co-mail pools have at least one participant with more than
7 100,000 pieces in the pool (Tr. 391), or why witness Schick would not confirm that its
8 small pool is an economic (as opposed to promotional) success (Tr. Tr. 496-97). Small
9 printers of short-run publications may simply not have the volumes necessary create
10 efficient pools, especially for publishers of tabloids, which cannot be co-mailed with
11 standard trim size Periodicals (Tr. 449).

Although Crain does not publish anything with circulations in the thousands, as
13 opposed to the tens of thousands, there are many out there who are not represented in
14 this case and who, due to their size, are not candidates for co- anything and are no
15 doubt stuck with small sacks. They, too, must be considered, especially because, if I
16 am correct that the industry is changing, they will not impose an undue burden on the
17 remainder of the class.

18 Finally, the country's major printers, the printers with the volume and the capital
19 to enter the co-palletizing and co-mailing business, are generally not interested in
20 printing one or two short-run publications, if that's all the publisher has. Even if they
21 were interested, they would likely not provide the kind of assistance and "hand holding"
22 that some small publishers need, and Time Warner's witnesses agreed (Tr. 509
(Schick) and 1002 (Mitchell)) that switching printers is not something to be taken lightly.

1 Even if a publisher were able to overcome these obstacles and switch to a printer that is
2 able to co-mail or co-palletize, there is likely to be a delay of up to several years in order
3 to avoid breaching a printing contract that, typically, would be of 3-5 year duration (Tr.
4 509).

5 **The Need for a "Measured Pace"**

6 The above considerations, as well as those addressed by the other American
7 Business Media witnesses, require that if any fundamental changes are going to be
8 made to the Periodicals rate structure, they be made with adequate notice and at the
9 "measured pace" witness Mitchell claims to have adopted (Tr. 803) but in my opinion
10 did not (see Tr. 923).

11 Before he testified in this case, Mitchell understood and explained that changes
12 such as those he now proposes should not be imposed upon an unprepared Postal
13 Service by the Postal Rate Commission. In a May 8, 2003 presentation to the Envelope
14 Manufacturers Association, he argued that Postal Service rates are in need of
15 fundamental change to eliminate averaging and properly reflect costs, yet he also
16 pronounced (at Tr. 902) that "USPS must do studies to support changes" of the type he
17 sought then and seeks now. He admitted during cross-examination (Tr. 1146-47) that
18 he knows of no such studies undertaken since he asserted that studies are needed. In
19 addition, in that same presentation, Mitchell explained that "USPS must play the
20 leadership role" and that "[t]he changes cannot be made by the Postal Rate
21 Commission." He does not explain what has happened in the past year to justify
22 changes ordered by the Commission in the absence of Postal Service "leadership" and
the once-necessary studies.

1 I would like to point out that today's rates are not as unfair and insulated from
cost considerations as Time Warner suggests. I note that the large circulation
3 magazines published by Time Inc. already pay much lower postage than we pay. For
4 example, for their main files, Time now pays 17.67 cents per copy, Sports Illustrated
5 pays 18.73 cents per copy, People pays 19.12 cents per copy and Entertainment Week
6 pays 17.2 cents per copy (Tr. 116). The Time Warner proposal would reduce these per
7 copy charges by roughly 2 to 3 cents (Tr. 116). In contrast, we have one publication
8 mailed by itself (Advertising Age's Creativity) that weighs roughly the same as these
9 Time Warner publications-- .35 ounces for ours versus .32 ounces, .39 ounces, .36
10 ounces and .27 ounces for Time Warner's (Tr. 116). Our editorial content is 50%,
11 compared with their average of 55.5%. Our per-copy postage is now around 30.14
cents, or 66% more than the 18.18 cents unweighted average Time Warner per copy
13 postage for these four publications. The Time Warner proposed rates would increase
14 the postage for Advertising Age's Creativity to 44.47 cents per copy, which is 184%
15 more than the 15.64 average postage at the proposed rates for the four Time Warner
16 publications (Tr. 116).

17 I am not complaining about the present, 66% difference between what they pay
18 and what we pay for a Periodical of approximately the same weight and only slightly
19 higher advertising content. I know that Time Warner palletizes nearly all of its copies of
20 these publications and rarely mails beyond zones 1 and 2. By contrast, we can now
21 palletize only 21% of Creativity, which has a mailed circulation of 31,320, and we do
22 not drop ship it. I point out these numbers in order to show with real life examples that
the current rates do in fact to a very substantial extent reflect differences in Postal

Service processing costs and reflect as well my general understanding that, over the past ten or fifteen years, smaller circulation publications have faced larger rate increases than the mass circulation magazines. It would be a mistake to believe that Crain Communications does not see the present difference of about 12 cents per copy, or \$45,000 a year for this one, small Periodical, as a strong price signal. If we could mail like Time does and pay the postage Time pays, we would.

Conclusion

I do not blame Time Warner and its allies for seeking lower postage rates, even though, because Periodicals rates are now to a large degree cost based, their postage costs per copy are typically well below ours. Our calculations, based upon the "before and after" postage figures and the circulation figures that the complainants provided in discovery for their main files, show that the five companies initiating this case would save, collectively, more than \$50 million annually at the rates they propose without changing a thing about the way they prepare and present their mail, and without saving the Postal Service a penny. More specifically, Time Warner would save ^{23.9}~~16.7~~ million, Conde Nast would save \$10.7 million, Reader's Digest Association would save \$6.7 million, Newsweek would save \$4.4 million, and TV Guide would save \$13.5 million. The calculations that produced these results are attached as Exhibit JM-1.

They would save these amounts even if everything they say about postal costs, the responsiveness of postal costs to changes in mail preparation and the ability of mailers to change is absolutely incorrect. The postage savings would not reflect any incremental cost reductions to the Postal Service, because there are no changes in mailing necessary to achieve them. Others of their size would see huge savings as

1 well. On other hand, as a representative of smaller circulation Periodicals, I am
concerned that if Time Warner is wrong in these forecasts, these postage reductions,
3 which would occur in any case, will require postage increases of equal magnitude for
4 the remainder of the class merely to maintain the very modest cost coverage for the
5 class.

6 It would be far preferable, I submit, for the Postal Rate Commission at the
7 conclusion of this case to encourage the Postal Service to investigate and study all of
8 the issues raised in this proceeding, and to propose in the next case any rate structure
9 changes, with associated rates, that it believes will both encourage mailers to continue
10 the move away from sacks and give some degree of protection to those mailers who,
11 due to their size, their business models or other factors would not be able to avoid large,
crippling increases if the proposals did not account for their existence.

13 I understand that the rapid increase in Periodical processing costs that
14 characterized much of the past twenty years is finally leveling off, see Tr. 192. I fully
15 expect that the combination of greater mailer awareness and the entry of new co-
16 mailing and co-palletizing providers is just the beginning of a major trend in that
17 direction that will have a very significant impact on processing costs of the type that
18 Time Warner says it is seeking through a carrot and stick change in rate design. I've
19 said it before: mailers don't like sacks. Give us a reasonable way to get out of them, or
20 to reduce the sack count by increasing the sack size with assurance that service will not
21 be compromised, and we will. It looks like we are getting there, and doing it without
22 inflicting harm on countless small and under-represented publications that will become
the collateral damage of the Time Warner proposal.

POSTAL RATE COMMISSION

RECEIVED

2004 NOV 12 A 9 56

COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES

Docket No. C2004-12
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

DECLARATION

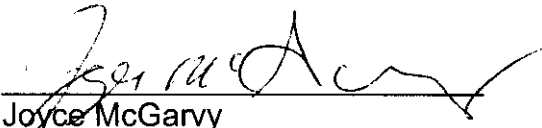
I, Joyce McGarvy, hereby declare under penalty of perjury that:

The *Direct Prepared Testimony of Joyce McGarvy on Behalf of American Business Media*, denominated ABM-T3, was prepared by me or under my direction;

Were I to give this testimony orally before the Commission, it would be the same, except that Exhibit JM-1 was corrected (and enlarged) in response to Presiding officer's Information Request No. 3.

The interrogatory responses and responses to the Presiding Officer's Information Request filed under my name were prepared by me or under my direction; and

Were I to respond orally to the questions appearing in the interrogatories and in the Information Request, my answers would be the same.


Joyce McGarvy

11/4/04
Date

Current and Proposed Postage Costs

CORRECTED

Exhibit JM-1 page 1 of 3

	Publication	Frequency	Volume (pieces/issue)	Current Postage (cents/piece)	Current Annual Postage	Proposed Postage (cents/piece)	Total Proposed Annual Postage	Difference
Time Weekly	Time	51	3,977,381	17.67	\$35,842,984.38	15.30	\$31,035,503.94	\$4,807,480.41
	Sports Illustrated	51	3,323,687	18.73	\$31,748,855.33	15.40	\$26,104,237.70	\$5,644,617.63
	People	51	2,446,528	19.12	\$23,856,583.83	16.76	\$20,911,942.73	\$2,944,641.10
	Entertainment Weekly	49	1,842,991	17.20	\$15,532,728.15	15.11	\$13,645,321.08	\$1,887,407.08
	Time for Kids	26	114,686	29.51	\$879,939.80	37.78	\$1,126,537.84	-\$246,597.84
	Total - Time Weekly	N/A	N/A	N/A	\$107,861,071.47	N/A	\$92,823,543.08	\$15,037,528.39
Transworld	BMX	12	16,959	38.54	\$78,431.98	40.54	\$82,502.14	-\$4,070.16
	Motocross	12	37,038	41.26	\$183,382.55	46.40	\$206,227.58	-\$22,845.04
	Ride BMX	9	18,495	42.05	\$69,994.33	44.65	\$74,322.16	-\$4,327.83
	Skateboarding	12	66,601	58.38	\$466,579.97	60.70	\$485,121.68	-\$18,541.72
	Snowboarding	8	63,658	53.06	\$270,215.48	56.59	\$288,192.50	-\$17,977.02
	Surf	12	32,584	44.07	\$172,211.46	48.06	\$187,803.10	-\$15,591.64
	Total - Transworld	N/A	N/A	N/A	\$1,240,815.76	N/A	\$1,324,169.17	-\$83,353.41
Time Monthly Publications	Coastal Living	6	444,101	41.61	\$1,478,323.41	37.58	\$1,335,145.25	\$143,178.16
	Cooking Light	11	1,308,587	30.01	\$4,319,776.55	26.12	\$3,759,832.17	\$559,944.38
	Field & Stream	11	1,270,058	25.73	\$3,594,645.16	22.62	\$3,160,158.32	\$434,486.84
	Fortune	26	842,421	28.59	\$6,262,052.26	26.80	\$5,869,989.53	\$392,062.73
	Golf	12	1,190,680	33.77	\$4,825,111.63	27.55	\$3,936,388.08	\$888,723.55
	In Style	13	838,815	61.50	\$6,706,325.93	53.37	\$5,819,782.35	\$886,543.57
	Money	13	1,781,577	22.96	\$5,317,651.03	19.81	\$4,588,095.25	\$729,555.78
	Outdoor Life	9	751,210	26.15	\$1,767,972.74	24.37	\$1,647,628.89	\$120,343.84
	People en Español	11	308,485	25.52	\$865,979.09	23.17	\$786,235.72	\$79,743.37
	Popular Science	12	1,267,993	25.85	\$3,933,314.29	23.24	\$3,536,178.88	\$397,135.41
	Progressive Farmer	14	599,217	20.44	\$1,714,719.37	18.41	\$1,544,421.90	\$170,297.47
	Real Simple	10	1,169,973	39.01	\$4,564,064.67	33.35	\$3,901,859.96	\$662,204.72
	Ski	8	245,277	24.99	\$490,357.78	23.42	\$459,550.99	\$30,806.79
	Skiing	7	294,742	22.50	\$464,218.65	20.71	\$427,287.48	\$36,931.17
	SI for Kids	12	695,289	18.73	\$1,582,731.58	17.28	\$1,441,751.27	\$120,980.29
	Teen People	10	1,105,195	26.58	\$2,937,608.31	23.01	\$2,543,053.70	\$394,554.62
	This Old House	10	882,668	30.71	\$2,710,667.29	26.60	\$2,347,891.56	\$362,775.73
	Sunset	12	1,207,735	28.21	\$4,088,424.52	23.40	\$3,391,319.88	\$697,104.64
	Business 2.0	11	586,437	26.26	\$1,693,981.92	22.79	\$1,470,138.92	\$223,843.00
	Yachting	12	96,479	45.75	\$529,669.71	44.45	\$514,618.99	\$15,050.72
	Southern Living	12	2,355,590	29.56	\$8,355,748.85	24.41	\$6,899,994.23	\$1,455,754.62
	Southern Accents	6	311,780	49.92	\$933,843.46	44.83	\$838,625.84	\$95,217.61
	Saltwater Sportsman	12	148,675	33.13	\$591,072.33	32.06	\$571,982.46	\$19,089.87
	Motorboating	12	141,018	33.06	\$559,446.61	31.88	\$539,478.48	\$19,968.15
	Total - Time Monthly	N/A	N/A	N/A	\$70,267,707.09	N/A	\$61,331,410.04	\$8,936,297.04
	Total - All Time Inc. Cos.	N/A	N/A	N/A	\$179,369,594.32	N/A	\$155,479,122.29	\$23,890,472.03

Current and Proposed Postage Costs

CORRECTED
Exhibit JM-1 page 2 of 3

	Publication	Frequency	Volume (pieces/issue)	Current Postage (cents/piece)	Total Current Annual Postage	Proposed Postage (cents/piece)	Total Proposed Annual Postage	Difference
Condé Nast Publications	Allure	12	730,829	35.96	\$3,153,673.30	27.55	\$2,416,120.67	\$737,552.63
	Gourmet	12	541,296	35.96	\$2,335,800.50	27.55	\$1,789,524.58	\$546,275.92
	GQ	12	787,374	35.96	\$3,397,676.28	27.55	\$2,603,058.44	\$794,617.84
	Self	12	938,348	35.96	\$4,049,159.29	27.55	\$3,102,178.49	\$946,980.80
	Vogue	12	781,038	35.96	\$3,370,335.18	27.55	\$2,582,111.63	\$788,223.55
	Bon Appetit	12	1,087,157	36.86	\$4,808,712.84	29.92	\$3,903,328.49	\$905,384.35
	The New Yorker	52	920,991	21.82	\$10,449,932.28	18.69	\$8,950,927.33	\$1,499,004.95
	Glamour	12	1,392,481	38.34	\$6,406,434.57	30.36	\$5,073,013.92	\$1,333,420.65
	Vanity Fair	12	752,414	51.51	\$4,650,821.42	40.63	\$3,668,469.70	\$982,351.72
	Modern Bride	12	180,309	65.44	\$1,258,874.52	60.69	\$1,167,498.39	\$91,376.13
	Brides	12	127,165	55.02	\$839,594.20	49.07	\$748,798.39	\$90,795.81
	Traveler	12	682,900	34.90	\$2,859,985.20	28.70	\$2,351,907.60	\$508,077.60
	Teen Vogue	12	351,859	29.17	\$1,231,647.24	25.56	\$1,079,221.92	\$152,425.32
	House & Garden	12	336,844	30.96	\$1,251,442.83	25.02	\$1,011,340.43	\$240,102.40
	Golf Digest	12	738,446	30.96	\$2,743,474.58	25.02	\$2,217,110.27	\$526,364.31
	Golf World	48	179,244	22.80	\$1,879,911.07	22.40	\$1,846,930.18	\$32,980.90
	Total - Condé Nast	N/A	N/A	N/A	\$54,687,475.30	N/A	\$44,511,540.42	\$10,175,934.88
Fairchild Pubs.	DNR	52	10,508	27.70	\$151,357.23	27.51	\$150,319.04	\$1,038.19
	Footware News	52	14,583	27.70	\$210,053.53	27.51	\$208,612.73	\$1,440.80
	Supermarket News	52	31,472	27.70	\$453,322.69	27.51	\$450,213.25	\$3,109.43
	Home Furnishing News	52	16,699	27.70	\$240,532.40	27.51	\$238,882.53	\$1,649.86
	Details	10	313,842	34.47	\$1,081,813.37	29.31	\$919,870.90	\$161,942.47
	Children's Business	12	12,185	34.78	\$50,855.32	37.16	\$54,335.35	-\$3,480.04
	Executive Technology	12	30,273	38.97	\$141,568.66	41.34	\$150,178.30	-\$8,609.64
	In Furniture	16	23,292	34.65	\$129,130.85	37.67	\$140,385.54	-\$11,254.69
	W Magazine	12	431,514	38.44	\$1,990,487.78	30.23	\$1,565,380.19	\$425,127.59
	Women's Wear Daily	280	28,580	24.67	\$1,831,895.52	25.80	\$1,915,804.80	-\$83,909.28
	Total - Fairchild	N/A	N/A	N/A	\$6,281,017.34	N/A	\$5,793,962.64	\$487,054.70
	Total - CN & Fairchild	N/A	N/A	N/A	\$60,968,492.64	N/A	\$50,305,503.06	\$10,662,989.58

Current and Proposed Postage Costs

CORRECTED
Exhibit JM-1 page 3 of 3

	Publication	Frequency	Volume (pieces/issue)	Current Postage (cents/piece)	Total Current Annual Postage	Proposed Postage (cents/piece)	Total Proposed Annual Postage	Difference
Reader's Digest Ass'n	Reader's Digest	12	10,714,401	20.00	\$25,714,562.40	17.00	\$21,857,378.04	\$3,857,184.36
	Selecciones	12	285,705	22.00	\$754,261.20	21.00	\$719,976.60	\$34,284.60
	Taste of Home	6	4,194,398	30.00	\$7,549,912.80	26.00	\$6,543,257.76	\$1,006,655.04
	Birds & Blooms	6	1,957,124	26.00	\$3,053,113.44	21.00	\$2,465,976.24	\$587,137.20
	Quick Cooking	6	2,699,170	26.00	\$4,210,705.20	23.00	\$3,724,854.60	\$485,850.60
	Country	6	1,157,640	25.00	\$1,736,460.00	23.00	\$1,597,543.20	\$138,916.80
	Country Woman	6	1,215,720	27.00	\$1,989,466.40	25.00	\$1,823,580.00	\$145,886.40
	Light & Tasty	6	1,455,997	28.00	\$2,446,074.96	25.00	\$2,183,995.50	\$262,079.46
	Reminisce	6	1,088,311	26.00	\$1,697,765.16	24.00	\$1,567,167.84	\$130,597.32
	Reminisce Extra	6	340,799	26.00	\$531,646.44	25.00	\$511,198.50	\$20,447.94
	Crafting Traditions	6	249,769	28.00	\$419,611.92	27.00	\$404,625.78	\$14,986.14
	Country Discoveries	6	340,481	27.00	\$551,579.22	25.00	\$510,721.50	\$40,857.72
	<i>Total - Reader's Digest</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>\$50,635,159.14</i>	<i>N/A</i>	<i>\$43,910,275.56</i>	<i>\$6,724,883.58</i>
NW	Newsweek	51	2,856,420	17.44	\$25,406,142.05	14.51	\$21,137,793.64	\$4,268,348.41
	Budget Travel	10	426,512	29.48	\$1,257,357.38	26.59	\$1,134,095.41	\$123,261.97
	<i>Total - Newsweek</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>\$26,663,499.42</i>	<i>N/A</i>	<i>\$22,271,889.05</i>	<i>\$4,391,610.37</i>
TV	TV Guide (All Plants)	52	8,285,141	16.54	\$54,057,240.71	12.39	\$40,493,906.43	\$13,563,334.28

American Business Media
Institutional

Response of ABM to TW et al./ABM-1

TW et al./ABM-1:

- a. Please confirm that on the ABM website, location http://www.americanbusinessmedia.com/member_directory/directory.cfm contains a list of ABM members, classified as either:
 - (1) associate;
 - (2) educational;
 - (3) international;
 - (4) lifetime;
 - (5) media organization;
 - (6) publisher; or
 - (7) sister member.
- b. Please confirm that the attached table (Table ABMList-1) contains all current ABM members. If not confirmed, please list all current members not included, by member category, and indicate which if any of those listed are not current members.
- c. How does member category affect a member's (1) voting power; and (2) annual dues?
- d. Why is one and only one member listed under the category 'publisher'?
- e. Please indicate which of the listed members are printers who print one or more publications that are mailed under Periodicals rates.
- f. Please indicate which of the listed members publish at least one publication that is mailed under Periodicals rates.
- g. Please indicate which of the listed members publish at least one publication whose editorial contents can be accessed wholly or partially on the internet.
- h. Please provide the address and any internet url(s) of each member.
- i. Please identify each member that is a for-profit company and indicate for each company whether it is privately owned or publicly traded. If publicly traded, please

Response of ABM to TW et al./ABM-1

identify the exchange on which it is traded and the name or code under which it is listed.

RESPONSE

a. Confirmed, as of the date of the request. However, since that time, category (6), “publisher,” has been removed, since its inclusion was an error.

b. Confirmed, for members as of May 2, 2004, the most recent American Business Media board meeting prior to the drafting of this response.

c. American Business Media objects to this question on the ground that it is not reasonably calculated to lead to the discovery of admissible evidence.

Notwithstanding this objection, American Business Media provides the following response: (1) Only media organizations, category 5, may vote. (2) Categories 3 and 5, international and media organizations, pay annual dues based upon advertising revenues. Category 1, associate members, pay a fixed annual amount. Category 4, lifetime members, pay a one-time fixed amount. Categories 2 and 7, educational and sister organizations, pay no dues.

d. The listing of one member under the “publisher” category was a data entry error that has since been corrected. That member should have been listed as a media organization.

Response of ABM to TW et al./ABM-1

e. American Business Media does not collect or maintain information on the specific publications printed by printer members. However, based upon our general knowledge, we believe that the following members are printers that print one or more publications that are mailed at Periodicals rates: American Press, LLC , Banta Publications Group, Brown Printing Company, Cadmus Specialty Publications, Democrat Printing & Lithographing Co., Publishers Press Incorporated, Quad/Graphics, Inc., Quebecor World, RR Donnelley Company.

f. American Business Media does not routinely collect or maintain information on the rates at which member publications are mailed, although based upon our general knowledge we believe that the vast majority of our member publications are mailed at Periodicals rates. To identify the members with at least one publication, please see the American Business Media directory on the American Business Media website, the URL for which is set out in your question TW et al./ABM-1 a. Please note that the members themselves, and not American Business Media, maintain the listing of publications at that website.

g. American Business Media does not routinely collect or maintain information that will permit it to identify members that publish at least one publication whose editorial contents can be accessed in whole or in part on the internet, although based upon our general knowledge, it is our understanding that many of the members with publications maintain such web sites. To further identify such members, please see the American

Response of ABM to TW et al./ABM-1

Business Media directory on the American Business Media website, the URL for which is set out in your question TW et al./ABM-1 a. That directory lists web sites for many member publications, and we believe that examination of those web sites will reveal many instances in which at least some of the editorial content of the publication is available. For example, at that website click “Advanstar” under “Browse Records,” and you will find a listing for that media organization along with a list and description of its publications. Click, for example, the publication Aftermarket Business to move to that publication’s web site, where there is editorial content at least some of which appears to be from the publication.

h. Except for the member-maintained information in the directory on the American Business Media website, the URL for which is set out in your question TW et al./ABM-1 a., American Business Media does not collect or maintain this information. We believe that the directory information is reasonably complete and accurate.

i. American Business Media objects to this question on the ground that it is not reasonably calculated to lead to the discovery of admissible evidence.

Notwithstanding this objection, American Business Media states that does it not collect or maintain this information concerning its members, although based upon general knowledge we do know that some members—such as Primedia, The McGraw-Hill Companies and Penton Media—are publicly traded on the New York Stock Exchange,

Response of ABM to TW et al./ABM-1

while others, such as Lebhar-Friedman, Inc., Crain Communications, Inc. and Bobit Business Media, are privately owned.

Response of ABM to TW et al./ABM-1

Table ABMList-1	
Member Name	Member Category
ABRY Partners, LLC	Associate
Accountability Information Management, Inc.	Associate
AdMedia Partners, Inc.	Associate
Affinity Research	Associate
American Press, LLC	Associate
Apprise Media, LLC	Associate
Banta Publications Group	Associate
Bariston Partners, LLC	Associate
Barnstable Broadcasting, Inc.	Associate
Bay Sherman Craig & Goldstein, LLP	Associate
Berkery, Noyes & Co.	Associate
Berkshire Information Systems, Inc.	Associate
BIA Financial Network	Associate
BizViz Internet Analytics, Inc.	Associate
Booz Allen Hamilton	Associate
Boston Ventures Management, Inc.	Associate
Brown Brothers Harriman & Co.	Associate
Brown Printing Company	Associate
Cadmus Specialty Publications	Associate
Chaffee Interactive	Associate
CIT Group, Inc., The	Associate
Citizens Bank of Massachusetts	Associate
Clifford Paper, Inc.	Associate
Computer Fulfillment	Associate
Datasystem Solutions, Inc.	Associate
Datatrax Publishing Systems, Inc.	Associate
Deloitte & Touche LLP	Associate
Democrat Printing & Lithographing Co.	Associate
DeSilva & Phillips, Inc.	Associate
Edith Roman Associates	Associate
Epsilon Management Systems Inc.	Associate
Erdos & Morgan	Associate
ExactTarget	Associate
Factorial Ltd.	Associate
FIND/SVP	Associate
FosteReprints	Associate
freebizmag.com	Associate
GE Capital	Associate
Google, Inc.	Associate
Hallmark Data Systems	Associate
Harris Nesbitt	Associate
Harvey Research, Inc.	Associate
Hitwise	Associate
IMS/The Auditor	Associate

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ISG Solutions	Associate
Javien Digital Payment Solutions	Associate
Jordan, Edmiston Group, Inc., The	Associate
MCG Capital Corporation	Associate
Media Services Group Ltd.,The	Associate
MediaBrains	Associate
Mediamark Research, Inc.	Associate
NewsStand Inc.	Associate
NIA Group, The	Associate
Niall Kavanagh Communications	Associate
Olive Software	Associate
Omeda Communications	Associate
PARS International Corp.	Associate
Perry Judd's Incorporated	Associate
Pfingsten Partners, LLC	Associate
Proximity Marketing	Associate
Publishers Press Incorporated	Associate
Qittitut Consulting LLC	Associate
Quad/Graphics, Inc.	Associate
Quebecor World	Associate
Readex, Inc.	Associate
Reprint Management Services	Associate
RR Donnelley Company	Associate
RSiCopyright	Associate
Sandler Capital Management	Associate
Scher Group	Associate
SearchChannel	Associate
TNS Media Intelligence/ CMR	Associate
Unisfair, Inc.	Associate
Veronis Suhler Stevenson	Associate
W.B. Grimes & Company	Associate
Warburg Pincus	Associate
Wells Fargo Communications Finance	Associate
Whitestone Communications, Inc.	Associate
Zinio Systems, Inc	Associate
Columbia University, Graduate School of Journalism	Educational
Fordham University Graduate School of Business Admin.	Educational
Howard University, School of Communications	Educational
New York University, School of Continuing Ed. Center for Publishing	Educational
Northwestern University, Medill School of Journalism	Educational
Ohio University	Educational
Pace University, MS Publishing Program	Educational
Syracuse University, S.I. Newhouse School of Public Communications	Educational
University Of California, Berkeley, Graduate School of Journalism	Educational

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University of Georgia, College of Journalism and Mass Communication	Educational
University of Missouri at Columbia, School of Journalism	Educational
University of Southern California, Annenberg School for Communication	Educational
Brunico Communications Inc.	International
CCI Asia-Pacific Ltd. (Hong Kong)	International
EMAP Communications Ltd. (UK)	International
Groupe Moniteur	International
Grupo Lund de Editoras Associadas (Brazil)	International
Guangzhou Advertising Co. Ltd.	International
Nikkei Business Publications America, Inc.	International
Rogers Media/Business Information Group	International
VFP Communications LTD	International
Babcock Sr., John	Lifetime
Hobbs, Gerald S.	Lifetime
Kobak, James B.	Lifetime
Lauinger, Jr., Phillip	Lifetime
Littleford, William D.	Lifetime
McAllister Jr., Donald	Lifetime
Sarbin, Hershel B.	Lifetime
Shore, Douglas	Lifetime
Sparks Jr., Baxter A.	Lifetime
Wickersham, John	Lifetime
101communications	Media Organization
Acoustical Publications Inc.	Media Organization
Advanstar, Inc.	Media Organization
Alexander & Edwards Publishing	Media Organization
Allured Publishing Corporation	Media Organization
American Lawyer Media, Inc.	Media Organization
Ascend Media Inc.	Media Organization
Babcox Publications, Inc.	Media Organization
Ball Publishing	Media Organization
Bev-Al Communications, Inc. dba Adams Beverage Group	Media Organization
Billian Publishing, Inc.	Media Organization
Bloomberg LP	Media Organization
Bobit Business Media	Media Organization
Bond Communications	Media Organization
Boucher Communications	Media Organization
Branch-Smith Publishing	Media Organization
Business Journals, Inc.	Media Organization
Canon Communications LLC	Media Organization
CMP Media LLC	Media Organization
Commonwealth Business Media, Inc.	Media Organization
Compass Publications, Inc.	Media Organization
Conquest Business Media	Media Organization
Country Journal Publishing Company Inc.	Media Organization

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Crain Communications Inc	Media Organization
CSP Information Group, Inc.	Media Organization
Curtis-Straus LLC d/b/a/ Conformity	Media Organization
Dana Chase Publications, Inc.	Media Organization
Deal LLC, The	Media Organization
Dempa Publications, Inc.	Media Organization
Diversified Business Communications	Media Organization
Doane Agricultural Services	Media Organization
Douglas Publications, Inc.	Media Organization
Dowden Health Media, Inc	Media Organization
Edgell Communications	Media Organization
Ehlert Publishing Group, Inc.	Media Organization
Elsevier Inc. /Health Sciences Division	Media Organization
Endurance Business Media	Media Organization
Fairchild Publications	Media Organization
Farm Journal Media	Media Organization
Forbes.com	Media Organization
Front Range Publishing	Media Organization
GCN Publishing	Media Organization
GIE Media, Inc.	Media Organization
Gill Ashton Publishing LLC	Media Organization
Hammock Publishing, Inc.	Media Organization
Hanley Wood, LLC	Media Organization
Hearst Business Media	Media Organization
High Plains Publishers, Inc.	Media Organization
Highline Media LLC	Media Organization
Hoard, WD&Sons	Media Organization
Hoyt Publishing Company	Media Organization
IDG	Media Organization
IEEE Media	Media Organization
Iowa Farmer Today, Inc/ Division of Gazette Comm.	Media Organization
James Informational Media, Inc.	Media Organization
Jobson Publishing Co. LLC	Media Organization
Journalistic, Inc.	Media Organization
Kona Communications, Inc.	Media Organization
Laurin Publications, Inc.	Media Organization
Lebhar-Friedman, Inc.	Media Organization
Lee Agri-Media	Media Organization
Lee Publications	Media Organization
Leisure Publications, Inc.	Media Organization
Macfadden Communications Group, LLC	Media Organization
Marketing & Technology Group	Media Organization
MC Publishing	Media Organization
McGraw-Hill Companies, The	Media Organization
Media Ventures, Inc.	Media Organization
Mediabistro.com, Inc.	Media Organization
MediaTec Publishing, Inc.	Media Organization

Response of ABM to TW et al./ABM-1

Meister Media Worldwide	Media Organization
Mercor Media	Media Organization
Metal Bulletin plc	Media Organization
Metal Finishing	Media Organization
Multimedia Healthcare/Freedom, LLC	Media Organization
National Association for the Specialty Food Trade, Inc.	Media Organization
National Trade Publications, Inc.	Media Organization
Network Communications Inc. /Black's Guide	Media Organization
Newport Communications Group	Media Organization
North American Publishing Company	Media Organization
Northstar Travel Media LLC	Media Organization
Octagon Communications Corp.	Media Organization
PennWell Corporation	Media Organization
Penton Media, Inc.	Media Organization
Pfingsten Publishing, LLC	Media Organization
Post Newsweek Tech Media Group	Media Organization
Preston Publications	Media Organization
Primedia Business Magazines & Media	Media Organization
Professional Media Group, LLC	Media Organization
Progressive Farmer	Media Organization
Putman Media	Media Organization
Quadrant Media Corporation	Media Organization
Randall Publishing	Media Organization
Red 7 Media, Inc.	Media Organization
Reed Business Information	Media Organization
Scholastic, Inc.	Media Organization
Simmons-Boardman Publishing Corp.	Media Organization
SmartBrief	Media Organization
Society for Human Resource Management (SHRM)	Media Organization
Sosland Publishing Co.	Media Organization
SRDS	Media Organization
ST Media Group International Inc.	Media Organization
Stamats Business Media	Media Organization
Successful Farming	Media Organization
Summit Publishing Company	Media Organization
The Magazine Group	Media Organization
Thomas Publishing Company	Media Organization
Thomson Media	Media Organization
Trade Press Publishing Corp.	Media Organization
Trend Publishing Inc.	Media Organization
United Publications	Media Organization
Vance Publishing Corporation	Media Organization
VNU Business Media	Media Organization
Watt Publishing Company	Media Organization
Wicks Business Information LLC	Media Organization
Williams Publications Company, E. W.	Media Organization
Witter Publishing Corporation	Media Organization

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Ziff Davis Media, Inc.	Media Organization
Lippincott Williams & Wilkins/ Wolters Kluwer	Publisher
Advertising Research Foundation (ARF)	Sister Member
American Advertising Federation	Sister Member
American Association of Advertising Agencies (AAAA)	Sister Member
Association of National Advertisers, Inc (ANA)	Sister Member
Audit Bureau of Circulations (ABC)	Sister Member
BPA International	Sister Member
Business Marketing Association	Sister Member
Direct Marketing Association (DMA)	Sister Member
Society of Independent Show Organizers	Sister Member

Response of ABM to TW et al./ABM-2

TW et al./ABM-2:

Please review the list of publications in the attached Table ABMList-2 and confirm that they are published by ABM members or their affiliates (hereafter, "ABM-member publications"). If not confirmed, please identify those that are not published by ABM members or their affiliates. Please also identify all publications by ABM members or their affiliates that are not shown in the table, including any publications by ABM members or their affiliates that are published electronically only, hardcopy publications that are distributed by the Postal Service but not under Periodicals rates, and hardcopy publications that are distributed outside of the U.S. Postal Service.

Response

The list of publications to which reference is made appears to contain publications produced by American Business Media members. This list, which we understand is the same list used by American Business Media in certain interrogatories to Time Warner et al. witness Gordon, rearranged in alphabetical order, was obtained from American Business Media's directory, which is updated by the members themselves. Therefore, although American Business Media believes it to be accurate, we cannot state with absolute certainty that every publication on that list is in fact published by an American Business Media member. American Business Media does not collect or maintain a list of publications not on that list that are produced by its members or their affiliates, although we are aware that some of our members, such as Primedia Business Magazines and Media and Hearst Business Media, are affiliated with publishers of consumer magazines that are not members of American Business Media and that are not listed in our directory or on that list.

Response of ABM to TW et al./ABM-2

Table ABMList2: ABM Publications	
1up.com	20/20
411 Publishing	AA News
ABA Banking Journal	ABOS Maine Blue Book
Abstracts in Hematology & Oncology	Academic Medicine
Academic Physician & Scientist	Access Control & Security Systems
Accessories	Accessory Merchandising
Accounting Technology	Accounting Technology First Look
Accounting Today	Accounting Today First Look
Ad Age's Creativity	Addiction Medicine
Advanced Packaging	Advances in Anatomic Pathology
Advertising Age	Adweek
Aerospace Daily & Defense Report	AF Lewis
Affordable Housing Finance magazine	Aftermarket Business
Ag Lender	Ag Retailer
aggman.com	Aggregates Manager
Agri Marketing	Agri-View
AIDS Alzheimer Disease & Related Research	AIDS Reader
Air Cargo World	Air Transport World
Aircraft Blue Book Digest	Airplay Monitor
Alaska Fisherman's Journal	Alexander Hamilton Awards & Conference
Alternative Investor	Am Law Tech
American Acreage	American Agent & Broker
American Artist	American Banker
American Banker Online	American City & County
American Coin-Op	American Demographics
American Drycleaner	American Fruit Grower
American Heart Journal	American Journal of Cardiology
American Journal of Clinical Oncology	American Journal of Dermatopathology
American Journal of Forensic Medicine & Pathology	American Journal of Gastroenterology
American Journal of Hypertension	American Journal of Medicine
American Journal of Obstetrics and Gynecology	American Journal of Ophthalmology
American Journal of Orthopedics	American Journal of Preventive Medicine
American Journal of Surgery	American Journal of Surgical Pathology
American Journal of Therapeutics	American Laundry News
American Lawyer, The	American Machinist
American Painting Contractor	American Printer
American Salon	American School & University
American Spa	American Trucker
American Vegetable Grower	America's Network
AMM	Amusement Business
Annals of Emergency Medicine	Annals of Long-Term Care
Annals of Plastic Surgery	Annals of Surgery
Annals of Thoracic Surgery	Annuity Market News
Anti-Cancer Drugs	Apartment Finance Today magazine
Apparel Magazine	Apparel Merchandising
Appliance	Application Development Trends
Applied Clinical Trials	Applied Immunohistochemistry
Apply	Aquatics International

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Archery Business	Architectural Lighting
Architectural Record	Architecture
Art Business News	Art Miami Show
ArtExpo Show	ASA Meeting Dailies
ASA/ASPN Refresher Courses	Asset Securitization Directory
Asset Securitization Report	Association Meeting & Event Planners
Association Meetings	ATM&Debit News
ATW Daily News	ATW's Equipment & Technology
ATWOnline	Auto Laundry News
Auto Rental News	Auto Trim & Restyling News
Automobilwoche	Automotive & Aerospace Test Reports
Automotive Body Repair News	Automotive Fleet
Automotive News	AutoWeek
Aviation Daily	Aviation Week & Space Technology
Back Stage	Back Stage West
Bakery Production & Marketing Newsletter	Baking & Snack
Baking Buyer	Baking Management
BakingBusiness.com	Bank Investment Consultant
Bank Loan Report	Bank Systems & Technology
Bank Technology News Bulletin	Base Station/Earth Station
Baseline	Baslinemag.com
Beef	Beef Today
Behavioral Pharmacology	Benefit News Connect
BenefitNews Adviser	BenefitNews.com
Better Roads	Beverage Aisle
Beverage Dynamics	Beverage Spectrum Magazine
Beverage World	Big Builder
Big Picture, The	Billboard
Bio-IT World	BioMechanics Magazine
BioPharm International	Bioscience Technology
Black's Guide	Blood Coagulation & Fibrinolysis
Blood Pressure Monitoring	Bloomberg Markets
Bloomberg Wealth Manager	BMJ USA
Boat & Motor Dealer	Boating Industry
BodyShop Business	Bond Buyer, The
Bookseller, The	BookTech the Magazine
Bovine Veterinarian	BPM Strategies (conference)
Brake & Front End	Brandweek
Bridge Builder	bridgebuildermagazine.com
Broadband Week	Broadcast Engineering U.S./Canada & World Editions
Broadcasting & Cable	Broker
Broker Universe	BtoB
BtoB Media Business	Buildcore Suite of Products (Reed Construction Data)
Builder	Building Design & Construction
Building Operating Management	Building Products
Buildings	Buildings Interiors
Buildings.com	BusCon (trade show)
Business & Commercial Aviation	Business 4Site
Business Driver	Business Finance

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Business Fleet	Business Forms, Labels & Systems
Business Insurance	Business Performance Management
Business Publication Advertising Source	Business Travel News
Business Travel Planner	BusinessWeek
BusinessWeek Online	C/C++ User's Journal
Cabling Installation & Maintenance	CADalyst
CADENCE	Cadence Magazine
California Builder & Engineer – (Reed Construction Data)	California Construction Link
Call Center Magazine	CanaData Construction Forecasting – (Reed Construction Data)
CanaData Construction Starts (Reed Construction Data)	Canadian Sailings
Cancer Genetics and Cytogenetics	Candy Buyers' Directory
Car & Locomotive Yearbook	Car Rental Show
Card Industry Directory	Card Source One
Card Technology	CardForum
Cardiology in Review	CardLine
CardUpdate	Career Adviser
Caring Daily	Caring for the Aged
Casino Executive	Casino Journal
Casual Living	Catalog Age
Catalog Success	CD Only
CE News	CED
cenews.com	CEQ
CertCities.com	Certification Magazine
Chain Leader	Chain Store Age
ChannelZone (Web site)	Cheers
Chemical Equipment	Chemical Processing
CI World Report	CIO
CIO Insight	Cioinsight.com
Circulation 2004	Circulation Management
Citrus & Vegetable Magazine	Claims
Clark Reports (Reed Construction Data)	Cleanfax
Cleaning & Maintenance Management	Cleanlink.com
CleanRooms	CleanTech
Clearing Quarterly & Directory	Clinical Biochemistry
Clinical Dysmorphology	Clinical Geriatrics
Clinical Journal of Pain	Clinical Journal of Sport Medicine
Clinical Neuromuscular Disease	Clinical Neuropharmacology
Clinical Nuclear Medicine	Clinical Obstetrics & Gynecology
Clinical Psychiatry News	Clinical Pulmonary Medicine
Clinical Trials Reporter	Clinician News
Clinician Reviews	Closets
Club Industry	CMEPlanner.com
CMExpo (trade show)	Collections & Credit Risk
Collections Source 1	College Adviser
Colorado Construction	Commercial Carrier Journal
Commercial Christmas Decor	Commercial Dealer
Commercial Fisheries News	Commercial Property News
Communication Systems Design-CSD	Communications Convergence

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Community Publication Advertising Source	CompensationPro
Compliance Engineering Magazine	Compliance Magazine
Computer Gaming World	Computer Graphics World
Computer Society - Computer	Computerworld
Concrete & Masonry Construction Products	Concrete Construction
Concrete Producer, The	Concrete Products
Conference Insights	Conference of Automotive Remarketing
Conformity	Connected Home Media
Connecticut Law Tribune	Connector Specifier
Construction & Demolition Recycling	Construction (Reed Construction Data)
Construction Bulletin (Reed Construction Data)	Construction Digest (Reed Construction Data)
Construction Equipment	Construction News (Reed Construction Data)
Construction News West	Construction.com
Constructioneer (Reed Construction Data)	Consultant
Consultant for Pediatricians	Consulting Insights
Consulting-Specifying Engineer	Consumer Goods Technology
Consumer Magazine Advertising Source	Contact Lens Spectrum
Contemporary OB/GYN	Contemporary Pediatrics
Contemporary Surgery	Contemporary Urology
Contingency Planning & Management	Contract
Contracting Business	Contracting Profits
Contractor	Contractor Tools & Supplies
Control	Control Design
Control Engineering	Control Solutions
Controlled Clinical Trials	Convenience Store Decisions
Convenience Store News	Converting Magazine
Corn and Soybean Digest, The	Cornea
Cornell Hotel & Restaurant Administration Quarterly	Corporate Choices
Corporate Counsel	Corporate Dealmaker
Corporate Gift Buyers	Corporate Library Update
Corporate Meeting & Event Planners	Corporate Meetings & Incentives
Corporate Syndicate Personnel Directory	Cosmetic Dermatology
Cosmetic Surgery Times	Cosmetic/Personal Care Packaging
Cosmetics & Toiletries	Cotton Farming Management
Cotton Grower	Counterman
Country Folks	Country Folks Grower
Crain's Chicago Business	Crain's Cleveland Business
Crain's Detroit Business	Crain's New York Business
Crane Works	Creative Handbook
Credit & Collections World Online	Credit Card Management
Credit Union Journal Daily Briefing, The	Credit Union Journal, The
Criticas Magazine	CRN
Crop Decisions	Crop Protection Handbook
CropLife	CropLife Iron
CSI's MANU-SPEC (Reed Construction Data)	CSI's SPEC-DATA (Reed Construction Data)
CSO	CSP (Convenience Store/Petroleum) Magazine
CSP Daily News	Current Opinion in Allergy and Clinical Immunology
Current Opinion in Clinical Nutrition & Metabolic Care	Current Opinion in Gastroenterology
Current Opinion in Hematology	Current Opinion in Infectious Diseases

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Current Opinion in Lipidology	Current Opinion in Nephrology & Hypertension
Current Opinion in Neurology	Current Opinion in OB & GYN
Current Opinion in Oncology	Current Opinion in Ophthalmology
Current Opinion in Organ Transplantation	Current Opinion in Orthopaedics
Current Opinion in Otolaryngology & Head Neck Surgery	Current Opinion in Pediatrics
Current Opinion in Psychiatry	Current Opinion in Pulmonary Medicine
Current Opinion in Rheumatology	Current Opinion in Urology
Current Psychiatry	Custom Conference Group
CU.S.tom Home	Custom HoU.S.e Outdoors
CU.S.tom publishing	Custom publishing
CU.S.tom Woodworking Business	CustomRetailer
Cutis	Cutting Technology
D&O Advisor	Daily Business Reviews
Daily Commercial News (Reed Construction Data)	Daily Journal, The
Daily Pacific Builder	Daily Variety
Dairy Herd Management	Dairy Today
dataWarehouse.com	DB2 Magazine
Deal, The	Dealer & Applicator
Dealernews	Dealerscope
Décor	Décor Expo
Delaware Law Weekly	Delicious Living
Delta Farm Press	Dental Economics
Dental Equipment & Materials	Dental Lab Products
Dental Practice Report	Dental Products Report
Dermatology Times	Design News
Design-Build	Diagnostic Imaging
Diagnostic Imaging SCAN	Diagnostic Molecular Pathology
Direct	Direct Marketing List Source
Directory of M&A Intermediaries	Directory of U.S. Exporters
Directory of U.S. Importers	Display & Design Ideas
Display Devices	District Administration
Diversion	Dixie Contractor (Reed Construction Data)
DM Direct Newsletter	DM Direct Special Report
DM Review	DMReview.com
DNR	Dodge Bulletins
Dodge Construction News Green Sheet	Dodge Daily & Weekly Bulletins
Dr. Dobb's Journal	Drivers
Drovers Magazine	Drug Benefit Trends
Drug Discovery & Development	Drug Store News
Drug Topics	DSN Retailing Today
DV (Digital Video) Magazine	DVD Exclusive
DVM Newsmagazine	EBN Benefits SourceBook
EC&M Books	ECN
Ecological Complexity	Editor & Publisher
EDN	EE Product News
EE Times	EEM/Electronic Engineers Master
E-Gear	Egg Industry
E-Gov Institute	e-Handbook
EITD (Electronic Industry Telephone Directory)	EJ of Emergency Medicine
Electric Light & Power	Electrical Construction Maintenance

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Electrical Marketing	Electrical Wholesaling
Electronic Business	Electronic Design
Electronic Gaming Monthly	Electronic Musician
Electronic News	Electronic Pesticide Dictionary 2003
Electronic Products	Electronic Publishing
Electronics Buyers' Guide	Electronics Source Book
Electronics Supply & Manufacturing	EMB (Embroidery/Monogram Business Magazine)
Embedded Computing Solutions	Embedded Systems Programming
Emergency Medicine	Emergency Medicine News
Employee Benefit News	Endocrinologist, The
Engine Builder	ENR
ENT	Entertainment
Entertainment Design	Epidemiology
e-Pro Magazine	Equipment Catalog
Equipment Connection	Equipment World
EquipmentWatch	eSeminar
etrucker.com	European Journal of Cancer Prevention
European Journal of Gastro Hepatology	European Medical Device Manufacturer
Event Marketer	Evidence Based Eye Care
Evidence Based Gastroenterology	eWEEK
eweek.com	Executive Technology
Executives	Exhibit & Trade Show Display Buyers
Expansion Management	Experimental Hematology
EXPO	ExtremeTech.com
Eyecare Business	F&I Management & Technology
Facets	FacilityCare
Family Health Matters	Family Practice News
Farm & Ranch Guide	Farm Industry News
Farm Journal	Fast Finder
Federal Computer Week	Federal Practitioner
Feed Management	Female Patient, The
FEPN (Fire/EMS Product News)	Fertility & Sterility
Fertilizer Technology and Application	Fiberoptic Product News
Field Force Automation	Financial Planning
Financial Professional's Diary & Guide	Fire Chief
Fire Engineering	FireEMS
FireRescue Magazine	First Source (Reed Construction Data)
First Source CAD (Reed Construction Data)	First Source Suite of Products (Reed Construction Data)
FirstsourceONL.com (Reed Construction Data)	Fish Farming News
Fitness Management	Fitness Management YMCA Edition
Fitness OnSite	Fleet Association Directory
Fleet Expo	Fleet Financials
Fleet Owner	Floor Covering Weekly
Flooring	Florida Grower
Florida Lawyer	Florida Shipper, The
Florida Underwriter	Flow Control
Focus Europe	Folio
Food and Feed Crops of the United States	Food Creations
Food Engineering & Ingredients	Food Management
Food Manufacturing	Food Processing

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FoodService Director	Foodservice Equipment & Supplies
Foodservice Equipment Reports	Footwear News
Forging	Formulary
Forwarder's List of Attorneys	FOSE
FOSE.com	Foundry Management & Technology
Frames Quarterly	Framing Business News
Free Radical Biology & Medicine	Front Range Business
Frontline Solutions	Fulton County Daily Report
Functional Foods & Nutraceuticals	Fund of Funds Conference, New York
Furniture Style	Furniture/Today
Galileo's World	Game Developer
Game Pro	GameNow
Gaming Industry News	Garden Center Merchandising & Management
Garden Center Products & Supplies	Garden Décor
Gas Utility Manager	Gases & Welding Distributor
Gastroenterology	GCN Internet Seminar Series
GCN.com	Genomics & Proteomics
Geospatial Solutions	Geriatric Times
Geriatrics	Gift, Housewares & Home Textile Buyers
Gifts & Decorative Accessories	Glaucoma
Global Cosmetic Industry	Golf Course News
Golfdom	gostructural.com
Gourmet Retailer, The	Government CIO Summit (conference)
Government Computer News	Government PROcurement
Government Product News	Government Security
GPS World	Grain Journal
Graphic Arts Blue Books	Graphic Arts Monthly
Graphic Design Business	Great American Trucking Show, The
Green Profit	Green Sheet (Reed Construction Data)
Greenbook Crop Protection Reference Manual	Greenbook MSDS Manual
Greenbook Turf and Ornamental Protection Manual	Greenhouse Grower
Greenhouse Management & Production	Greensheet Logger (Reed Construction Data)
Greetings etc.	Grocery Headquarters
Grounds Maintenance	Grower Talks
Grower, The	Gulf Shipper
Hard Hat News	Hay & Forage Grower
HDMA/Mortgage Originator Database	Health Data Management Weekly
Health IT World	Health IT World News
Health Market Data (Reed Construction Data)	Healthcare Enterprise
Healthcare Informatics	Hearing Journal
Hearing Journal Dailies	Heart Disease Journal of Cardiac Medicine
Heavy Construction	Heavy Duty Trucking
HFN (Home Furnishings News)	High Plains Journal
High Yield Report	Hispanic Media and Market Source
HME Excellence Award Program	HME News Magazine
Hoards Dairyman	Hollywood Reporter, The
Home Accents Today	Home Channel News
Home Decor Buyer	Home Equity Wire
Home Textiles Today	HomeCare
Homeland First Response	Homeland Response
Homeland Security & Defense	Homes & Land Magazine

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Hospital Phone Book	Hospitality Design
Hospitality Profiles (Reed Construction Data)	Hospitality Technology
Hotel & Motel Management	Hotel & Travel Index
HOTELS	HOTELS' Investment Outlook
Housekeeping Solutions	HousingZone.com
HPAC Engineering	HR Magazine
HT - Healthcare Traveler	Human Capital
Human Pathology	HVACR Distribution Business
Hydraulics & Pneumatics	ID Newswire
ID Sales Pro	IEEE Spectrum (Microwave/Power & Energy/Signal Processing)
ImportCar	Impressions
Incentive	Indian Gaming Business
Industrial Distribution	Industrial Equipment News
Industrial Laser Solutions	Industrial Maintenance & Plant Operation
Industrial Networking	Industrial Product Bulletin
Industrial WaterWorld	IndustryWeek
Infections in Medicine	Infections in Urology
Infectious Diseases in Clinical Practice	InformationWeek
InfoStor	InfoWorld
InFurniture	Injection Molding Magazine
In-Plant Graphics	Insect and Disease Control Guide
Inside Direct Mail	In-Stat/MDR
Instructor	Instructor New Teacher
Instrumentation & Automation News	Insurance & Technology
Insurance Conference Planner	Insurance Networking News
Insurance Phone Book	Intelligent Enterprise
Intelliguide by Weissman	Interactive Advertising Source
Interior Business	Interior Decorators' Handbook
Interior Design	Intermountain Contractor
Internal Medicine News	International Aids Clinic
International Clinical Psychopharmacology	International Gaming & Wagering Business
International Journal of MS Care	International Journal of Radiation Oncology Biology Physics
International Journal of Rehabilitation Research	International Ophthalmology Clinics
Internet Publishing Insights Newsletter	Investigative Radiology
Investment Advisor	Investment Advisor Press
Investment Advisor Wealth Advisor Summit	Investment Dealers' Digest
Investment Management Weekly	Investment News
Iowa Farmer Today	IP Law & Business
Irrigation Business & Technology	iSeries NEWS
Israel Diamonds	IT Compliance Institute
IVD Technology	JCK (Jewelers' Circular Keystone)
JEMS (Journal of Emergency Medical Services)	Job board for media industries professionals
Journal Midwifery and Women's Health	Journal of Adolescent Health
Journal of Aids	Journal of Allergy & Immunology
Journal of Analytical Toxicology	Journal of Bronchology
Journal of Cardiovascular Pharmacology	Journal of Cardiovascular Risk
Journal of Cataract and Refractive Surgery	Journal of Chromatographic Science
Journal of Clinical Anesthesia	Journal of Clinical Gastroenterology
Journal of Clinical Psychopharmacology	Journal of Clinical Rheumatology

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Journal of Commerce (Reed Construction Data)	Journal of Commerce, The
Journal of Computer Assisted Tomography	Journal of Craniofacial Surgery
Journal of Critical Illness	Journal of Critical Pathways in Cardiology
Journal of Diabetes and its Complications	Journal of ECT, The
Journal of Emergency Medicine	Journal of Essential Oil Research
Journal of Family Practice	Journal of Gastrointestinal Surgery
Journal of Gender-Specific Medicine, The	Journal of GXP Compliance
Journal of Heart and Lung Transplantation	Journal of Home Care Medicine, The
Journal of Hypertension	Journal of Immunotherapy
Journal of Light Construction, The	Journal of Medical Microbiology
Journal of Musculoskeletal Medicine	Journal of Nerve & Mental Disease
Journal of Neurosurgical Anesthesiology	Journal of Orthopaedic Trauma
Journal of Pain and Symptom Management	Journal of Pediatric Gastroenterology
Journal of Pediatric Orthopaedics Part B	Journal of Pediatrics
Journal of Pelvic Surgery	Journal of Psychiatric Practice
Journal of Respiratory Diseases	Journal of Tax Credit Investing
Journal of the American Academy of Dermatology	Journal of the American Academy of Physician Assistants (JAAPA)
Journal of the American College of Cardiology	Journal of the American College of Surgeons
Journal of the American Society for Mass Spectrometry	Journal of the Electronics Industry
Journal of the Society of Gynecologic Investigation	Journal of Thoracic Imaging
Journal of Validation Technology	Journal of Women's Imaging
KeyPRODUCTS (Reed Construction Data)	Kids Today
Kiosk Business	Kirkus Reviews
Kitchen & Bath Business	Kosher Today
L Magazine	Laboratory Equipment
Lancet, The	Landscape Design/Build
Landscape Management	Laser Focus World
Laser Focus World's Buyer's Guide	Law Firm, Inc.
Law Technology News	Lawn & Landscape
Lawn & Landscape Weed & Insect Management Summit	LC GC North America
LCT Leadership Summit (conference)	LD1- Entertainment Technology Show
LDB Interior Textiles	Learning and Training Innovations
Leather Today	Legal Times
LH - Lodging Hospitality	Library Hotline
Library Journal	License!
Life Insurance Selling	Life Sciences
Lift Equipment	Lifting & Transportation International
liftlink.com	Lighting Dimensions
Lightwave	Limited Partners Summit
Limousine & Chauffeured Transportation	Limousine & Chauffeured Transportation Show
Logistics Management	Logistics Today
Lottery Business	Louisiana Contractor
LP/Gas	Luxury Home Builder
Luxury International	m10Report
Machine Design	Macworld
Magnetic Resonance Imaging	Maintenance Solutions
Managed Healthcare Executive	Managing Automation
Manufacturer Catalogs (Reed Construction Data)	Manufacturer, The

Response of ABM to TW et al./ABM-2

Manufacturing Confectioner	Manufacturing Solutions
MAR Reports	MAR Sophisticated Strategies
MARHedge	Marina Dock Age
Marine Log	Marine Log & Maritime Services Directory
Marine Marketing	Market Link (Reed Construction Data)
MarketCast	MarketFAX
Masonry Construction	Mass Merchandise & Off-Price Apparel Buyers
Material Handling Management	Material Handling Product News
Materials Characterization	Mayo Clinic Proceedings
MCP TechMentor Conferences	Meat & Seafood Merchandising (Meats & Provisions)
Meat Marketing & Technology	Meat Processing North American Edition
MEAT&POULTRY	MEATPOULTRY.COM
Mediaweek	Medical Care
Medical Design News	Medical Design Technology
Medical Device & Diagnostic Industry	Medical Device Register
Medical Dosimetry	Medical Economics
Medical Electronics Manufacturing	Medical Meeting Planners
Medical Meetings	Medical Product Manufacturing News
Medicine	Meeting News
Meetings & Conventions	Meetings East
Meetings South	Meetings West
MeetingsFocus.com	Melanoma Research
Men's & Boys' Wear Buyers	Mergers & Acquisitions Database
Mergers & Acquisitions. The Dealmaker's Journal	Mergers & Acquisitions Report
Metal Finishing	Metal Finishing Guidebook Dir.
Metal Finishing Organic Guidebook Dir.	Metal Producing & Processing
Metro	Michigan Contractor and Builder (Reed Construction Data)
MICRO Magazine	Microlithography World
Microprocessor Report	Microsoft Certified Professional Magazine
MicroTec Magazine	Microwave Product Digest
Microwaves & RF	Mid-Atlantic Construction
Midwest Construction	Midwest Contractor (Reed Construction Data)
Midwest Marketer	Midwest Messenger
Military & Aerospace Electronics	Millimeter
Milling & Baking News	Milling Journal
Mine & Quarry Trader	Minnesota Farm Guide
Minority Law Journal. The	Mix
Mobile Electronics	Mobile Radio Technology
Mobility Management	Modern Baking
Modern Brewery Age	Modern Brewery Age/Blue Book
Modern Brewery Age/Tabloid Edition	Modern Bulk Transporter
Modern Health for Women	Modern Healthcare
Modern Materials Handling	Modern Materials Handling
Modern Metals	Modern Physician
Modern Plastics	Modern Salon
Modern Tire Dealer	Modern Uniforms
Modern Woodworking	Modernwoodworking.com
Molecular Imaging & Biology	Money Management Executive
MortgageOriginator	Mortgage Broker Database
Mortgage Servicing News	Mortgage Technology

Response of ABM to TW et al./ABM-2

Mortgage-Custom Data Searches	Motion Control
Motion System Design	Motion System Field Guide
Motion Systems Integrator	Motor
Motor Age	Motor Media
MR	MRO
MRO Today	MSDN Magazine
MSI	Multichannel News
Multifamily Executive	Multi-Housing News
Musical America International Directory of Performing Arts	Mutual Fund Service Guide, The
MX: Business Strategies for Medical Technology	myBusiness
Nails	NASCAR Performance
National Facility Management & Technology	National Fisherman
National Gaming Summary	National Hog Farmer
National Jeweler	National Mortgage News
National Mortgage News Daily Briefing	National Real Estate Investor
National Referral Roster	National Underwriter – Life/Health Edition
National Underwriter – Property/Casualty Edition	Nation's Restaurant News
Natural Foods Merchandiser	Natural Grocery Buyer
Natural Products	NCDM
NetDefense	Network Computing
Network Magazine	Network World
Neurologist, The	Neurology Meeting Reporters
Neurology Reviews	Neurology Today
Neuropsychiatry	NeuroReport
Neurosurgery Quarterly	Neurotoxicology & Teratology
New England Construction (Reed Construction Data)	New Equipment Digest
New Jersey Law Journal	New York Construction News
New York Diamonds	New York Law Journal
Newport's RoadStar	Newspaper Advertising Source
North American Quarry News	Northwest Construction
Nuclear Medicine Communications	Nursery Management & Production
Nursing Home Economics	Nutrition
Nutrition Business Journal	Nutrition Research
Nutritional Outlook	Ob Gyn News
OBG Management	Obstetric & Gynecological Survey
Occupational Hazards	Ocean Oil Weekly Report
Office Equipment & Products	Office Technology
Official Board Markets	Official Cruise Guide
Official Export Guide	Official Hotel Guide International
Official Meeting Facilities Guide	Official Railway Equipment Register
Official Railway Guide	Offshore Magazine
Oil & Gas Financial Journal	Oil & Gas Journal
Oil, Gas & Petrochem Equipment	On Wall Street
Oncology	Oncology Times
onlinemariner.com	Operations & Fulfillment
Ophthalmology	Ophthalmology Management
Ophthalmology Times	Optimize
Optoelectronics Manufacturing	Optometric Management
Organic Products	Origination News

Response of ABM to TW et al./ABM-2

Ornamental Outlook	Otolaryngology- Head & Neck Surgery
Out-of-Home Advertising Source	Overdrive Magazine
Overhaul & Maintenance	Owner Operator/Company Driver Magazine
Pacific Builder and Engineer (Reed Construction Data)	Pacific Shipper
Pacific Shipper's Transportation Services Directory (annual)	Package Printing
Packaging Digest	Packaging World
Packer, The (Produce)	Pain
PANamericano.com	Pancreas
Paper, Film & Foil Converter	Paperboard Packaging
Pathology Case Reviews	Patient Care
PC World	PCT Commercial Pest Management Summit
PDR Monthly Prescribing Guide	Peanut Grower, The
Pediatric Case Reviews	Pediatric Emergency Care
Pediatric Hematology Oncology	Pediatric Infectious Disease Journal
Pediatric Neurology	Pediatric News
Pennsylvania Law Weekly	Pensions & Investments
Peptides	Perfumer & Flavorist
Pest Control	Pest Control Technology (PCT)
Pet Business	Petfood Industry
Pharmaceutical & Medical Packaging News	Pharmaceutical Executive
Pharmaceutical Manufacturing	Pharmaceutical Processing
Pharmaceutical Representative	Pharmaceutical Technology North America
Pharmacogenetics	PharmaGenomics
Photo District News	Photo Techniques
Photonics Spectra	Physician & Sportsmedicine, The
Physicians Travel & Meeting Guide	Pit & Quarry
Pizza Today	Plan Rooms (Reed Construction Data)
Planners Weekly	Plans Direct CD-ROM (Reed Construction Data)
Plans Direct Print (Reed Construction Data)	Plant Engineering
Plant Services	Plants Sites & Parks
Plastics Machinery & Auxiliaries	Plastics News
Plate	Playthings
Pocket List of Railroad Officials, The	Point of Care Testing
Police	Pool & Spa News
P-O-P Design	P-O-P Times
Pork	Portable Design
Post	Postgraduate Medicine
Potentials	Poultry
Powder/Bulk Solids	Power
Power Electronics Technology	PowerSports Business
PowerSystems World	Practical Accountant
Practical Accountant First Look	PrecisionAg Buyer's Guide
Premier Hotels & Resorts	Premier Romance
Premier Spas	Premium, Incentive & Travel Buyers
Presentations	Presenting Communications
Primary Care Case Reviews	Primedia Price Digests
Print Media Production Source	Printing Impressions
Printing Impressions Top Management News	Printmarketplace.com
PrintMedia	Private Equity Analyst

Response of ABM to TW et al./ABM-2

Private Equity Analyst Conference, New York	Private Equity Outlook, New York
Private Label	Private Label Directory
Private Placement Letter	Problems in General Surgery
Process	Processing
Produce Concepts (Produce)	Produce Merchandising (Produce)
Product Design and Development	Production Technology News
Productivity	Professional Builder
Professional Carwashing & Detailing	Professional Jeweler
Professional Remodeler	ProFile: The Architects Sourcebook (Reed Construction Data)
Profitable Embroiderer	Progressive Distributor
Progressive Farmer	Progressive Grocer
Progressive Railroading	Progressiverailroading.com
Promo	Promotional Marketing
Proofs	ProSales
Psychiatric Genetics	Psychiatric Times
Public Works	Publishers Weekly
Publishing	Pulmonary Reviews
Pumps & Systems Magazine	Purchasing
QA (Quality Assurance & Food Safety)	QSR
Quarterly Data Report	R&D Research & Development
Radio Advertising Source	Radio Magazine
Radiologist, The	Railway Age
Railway Track and Structures	RCR Wireless News
RDH	Recharger Magazine
Recharger World Expo (trade show)	Recycling Today
Recycling Today Paper Recycling Conference & Trade Show	Red Book Credit Services
Red Book, The	Reed Bulletin (Canada) (Reed Construction Data)
Reed Bulletin (Reed Construction Data)	Reed Connect (Reed Construction Data)
Reed Construction Data	Reed Press
ReedBulletin.com (Reed Construction Data)	Refrigerated Transporter
Registered Rep.	Religious Conference Manager
Remix	Remodeling
Renew	Replacement Contractor
RER (Rental Equipment Register)	Residential Architect
Residential Construction	Residential Lighting
Residents' Forum (bi-monthly newsletter)	Respiratory Reviews
Response	Restaurant Business
Restaurant Hospitality	Restaurants and Institutions
Restaurants and Institutions Marketplace	Retail Info Systems News
Retail Merchandiser	Retail Traffic, formerly Shopping Center World
Retina	Review of Ophthalmology
Review of Optometry	Reviews in Medical Microbiology
RF Design	Rheumatology News
Rice Farming	RN & WPL Encyclopedia
RN CareerSearch	RN Magazine
Road King	Robotics World
Rock Products	Rocky Mountain Construction (Reed Construction Data)
Ross Reports/ Television & Film	RSI-Roofing/Siding/Insulation

Response of ABM to TW et al./ABM-2

RSMeans Cost Books (Reed Construction Data)	RSMeans Insurance Services (Reed Construction Data)
RSMeans Reference Books (Reed Construction Data)	RSMeans Research Services (Reed Construction Data)
RSMeans Seminars/Training (Reed Construction Data)	Rubber & Plastics News
S&VC/Sound & Video Contractor	Safety Incentive Buyers
Sales & Marketing Management	Sales & Marketing Strategies and News
Salon Today	Sanitary Maintenance
Scholastic Administr@tor	Scholastic Coach and Athletic Director
Scholastic Early Childhood Today	Scholastic Technology Guide
School Bus Fleet	School Library Journal
Scientific Computing & Instrumentation	Screen Printing
Sea Technology	SeaFood Business
SeaFood Handbook	Securities Industry News
Securities Industry News Midweek News Update	Security Growth Conference
Security Sales & Integration	Security Systems News Magazine
SecurityXchange	Seed Today
Selling Christmas Decorations	Selling Halloween
Semiconductor International	Semiconductor Packaging
Seminar in Oncology	Sensors
Service Management	SGB(Sporting Goods Business)
Shipping Digest	SHOOT
Show News	Sign Builder Illustrated
Sign Builder Illustrated Buyers Guide	Signs of the Times
Skin & Allergy News	Skin Inc.
Slot Manager	SMA Adviser
Small Firm Business	Snow Business
Software Development	SoHo Today
Solid State Technology	Sound & Vibration
Southeast Construction	Southeast Farm Press
Southwest Contractor	Southwest Farm Press
Special Events Magazine	Specialty Food Magazine
Spectroscopy	Spinal Disorders
Spine	Sporting Goods & Activewear Buyers
Sports Medicine & Arthroscopy Review	SQL Server Magazine
SRDS International Media Guides	SRDS Media Planning System
SRO (Staging Rental Operations)	Star Service
Stateways	Stitches Magazine
Structural Engineer	Successful Dealer
Successful Farming	Successful Meetings
Supermarket News	Supply Chain Management Review
Surface Mount Technology (SMT)	Surgery
Surgical Laparoscopy & Endoscopy	Surgical Neurology
Surgical Products	Survey of Anesthesiology
Survey of Ophthalmology	Swine Practitioner
Syllabus	Sys Admin
T&D World Expo	Takeover Stock Report
Target Marketing	TCPmag.com
Tech Decisions	Techniques in Foot and Ankle Surgery
Techniques in Hand & Upper Extension Surgery	Techniques in Knee Surgery

Response of ABM to TW et al./ABM-2

Techniques in Neurosurgery	Techniques in Ophthalmology
Techniques in Orthopaedics	Techniques in Shoulder and Elbow Surgery
Technology & Learning	Technology Media Source
Telecom	Telephony
Television Week	Test & Measurement World
Texas Construction	Texas Contractor (Reed Construction Data)
Texas Lawyer	Textile World
Textile World Blue Book	The Boston Law Tribune
The Data Warehousing Institute	The Legal Intelligencer
The Lifestyle Market Analyst	The Meetings Guide to the East
The Meetings Guide to the South	The Meetings Guide to the West
The National Law Journal	The Prairie Star
The Recorder	Therapeutic Drug Monitoring
Tire Business	Tire Review
Today's Garden Center	Tomorrow's Technician
Tools of the Trade	Top Bid
Top Producer	Topics in MRI
Track Yearbook	Traders Magazine
Traffic World	Trailer/Body Builders
Training/Online Learning	Transform Magazine
Transmission & Distribution World	Transplantation Proceedings
Transportation Telephone Ticker	Travel Agent
Travel Weekly	TravelAge West
Treasury & Risk Management	TrendWatch Graphic Arts
Trendz	Trexpo (East & West) (trade shows)
TriState Neighbor	Truck & SUV Performance
Truck Blue Book & Seminar	Truck Parts & Service
Truck Sales & Leasing	Truckers News Magazine
Trucking Opportunity Directory	TruckStop Travel Plaza
TruckStops Express	Trusts & Estates
TV	TV & Cable Source
TWICE (This Week in Consumer Electronics)	U. S. Banker
U.S. Banker Weekly Bulletin	U.S. Pharmacist
Ultrasound in Medicine & Biology	Ultrasound Quarterly
Underhood Service	University Business Magazine
Urology	Urology Times
U.S. Custom House Guide	Used Equipment Directory
Utilities IT	Utility Automation
VARBusiness	Variety
Variety.com	Vegetable Insect Management
Vehicle Remarketing	Venture Capital Analyst - Health Care Edition
Venture Capital Analyst - Technology Edition	Venture Reporter
VentureOne	VentureOne Exchange
VentureOne Summit	VentureSource
Vertical Systems Reseller	Veterinary Economics
Veterinary Medicine	Video Business
Video Store Magazine	Video Systems
Vision Monday	Vision Systems Design
VM + SD	Wall Street & Technology
Ward'sAuto.com	Ward's Automotive Reports
Ward's AutoWorld	Ward's Dealer Business

Response of ABM to TW et al./ABM-2

Ward's Information Products	Warehouse Distribution Directory
Washington Technology	Washingtontechnology.com
Waste Age	Waste Handling Equipment News
Waste News	Water News
Water Technology	Watercolor
WaterWorld	Watt Poultry USA
Wearables Business	WebCPA Week
Website that provides business information	Weed Control Manual
Welding Design & Fabrication	Wellness Foods
Western Builder (Reed Construction Data)	Western Farm Press
Western Fruit Grower	Western Massachusetts Law Tribune
Who's Who in the Egg and Poultry Industries	Wildfire
Wildland Firefighter	Windows & .NET Magazine
Windows Developer Network	Wired House, The
Wireless Design & Development	Wireless Review
Wireless Systems Design	Wireless Week
Woman Dentist Journal	Women's & Children's Wear Buyers
Women's Health in Primary Care	Wood & Wood Products
WorkBoat	Workforce
WorkHorse Truck & Equipment (Reed Construction Data)	Workout Wire
World Aviation Directory & Aerospace Database	World Leaders in Print
World-Grain.com	www.betterroads.com
www.gasindustries.com	

Response of ABM to TW et al./ABM-3

TW et al./ABM-3

- a. For each ABM-member publication identified in your response to TW et al./ABM-2, please identify the ABM member by which it is published.
- b. Additionally, please indicate which of the following apply to each publication:
 - (1) the publication is distributed through the U.S. Postal Service as a regular rate non-requester publication;
 - (2) it is distributed through the U.S. Postal Service as a requester publication;
 - (3) it is distributed through the U.S. Postal Service as a nonprofit or classroom publication;
 - (4) it is distributed through the U.S. Postal Service under a different rate structure (please specify);
 - (5) it is distributed in hardcopy form by means other than the U.S. Postal Service;
 - (6) it is distributed electronically by email to those who request it;
 - (7) it is distributed electronically by email to paying subscribers;
 - (8) an electronic version can be downloaded from the internet by all who request it;
 - (9) an electronic version can be downloaded from the internet by paying subscribers;
 - (10) some of the publication's editorial contents are accessible on an internet website;
 - (11) all or most of the publication's editorial contents are accessible on an internet website to paying subscribers;
 - (12) all or most of the publication's editorial contents are accessible on an internet website, either without restriction or to all who complete an online survey;
 - (13) the publication's electronic version offers features not available in the hardcopy version, e.g., ability to search the text, ability to click through to references made in the text, additional editorial content, more frequent updates, etc.

Response of ABM to TW et al./ABM-3

Response

a. If this question is asking for the publisher of each of the approximately 1,500 publications on Table ABMList-2, that information can be found in the American Business Media directory on the American Business Media website, the URL for which is set out in your question TW et al./ABM-1 a. If this question refers to publications identified in response to third sentence of question TW et al./ABM-2, there are none that we know of.

b. To the extent that the question refers to each of the approximately 1,500 publications on Table ABMList-2, American Business Media responds to the subparts as follows:

(1) American Business Media does not routinely collect or maintain information that will permit it to identify in any systematic way which of the publications are entered as regular rate, non-requester publications, although we do know from general knowledge that there are many in this category.

(2) American Business Media does not routinely collect or maintain information that will permit it to identify in any systematic way which of the publications are entered as regular requester publications, although we do know from general knowledge that there are many in this category.

Response of ABM to TW et al./ABM-3

(3) American Business Media does not routinely collect or maintain information that will permit it to identify in any systematic way which of the publications are entered as regular nonprofit or classroom publications, although we do know from general knowledge that there are very few, if any.

(4) American Business Media does not routinely collect or maintain information that will permit it to identify in any systematic way which of the publications are entered under a different rate structure, although from general knowledge we believe that there may be some First-Class newsletters and some Standard mail publications.

(5) American Business Media does not routinely collect or maintain information that will permit it to identify in any systematic way which of the publications are distributed in hard copy form by means other than the Postal Service, although from general knowledge we do know that some member publications, primarily dailies or weeklies, distribute a portion of their copies in select urban locations through private delivery and that some of the member publications with paid circulation distribute a portion of that circulation on newsstands.

(6) American Business Media does not routinely collect or maintain information that will permit it to identify in any systematic way which of the publications are distributed electronically by email to those who request it.

Response of ABM to TW et al./ABM-3

(7) American Business Media does not routinely collect or maintain information that will permit it to identify in any systematic way which of the publications are distributed electronically by email to paying subscribers.

(8) American Business Media does not routinely collect or maintain information that will permit it to identify publications with an electronic version that can be downloaded from the internet by all who request it.

(9) American Business Media does not routinely collect or maintain information that will permit it to identify in any systematic way publications with an electronic version that can be downloaded from the internet by paying subscribers.

(10) American Business Media does not routinely collect or maintain information that will permit it to identify in any systematic way publications with some editorial content accessible on a website.

(11) American Business Media does not routinely collect or maintain information that will permit it to identify in any systematic way publications with all or most editorial content accessible on a website to paying subscribers.

(12) American Business Media does not routinely collect or maintain information that will permit it to identify in any systematic way publications with editorial content

Response of ABM to TW et al./ABM-3

accessible on a website either without restriction or to all who complete an online survey.

(13) American Business Media does not routinely collect or maintain information that will permit it to identify in any systematic way publications with an electronic version not available in the hard copy version.

Response of ABM to TW et al./ABM-4

TW et al./ABM-4:

- a. For each ABM-member publication that is distributed through the U.S. Postal Service under Periodicals rates, please provide a copy of the most recent ownership statement required by 39 U.S.C. § 3685 and a representative copy of a recent mailing statement (PS Form 3541).
- b. Additionally, please provide the following information, to the extent available, for each such publication:
 - (1) frequency of publication;
 - (2) average mailed volume per issue;
 - (3) mail piece shape (letter/flat/other);
 - (4) average weight per piece;
 - (5) average total print order per issue;
 - (6) printer and ZIP Code where printed;
 - (7) percent at each presort level (carrier route, 5-digit, 3-digit and basic);
 - (8) for each presort level, the percent that is pre-barcoded;
 - (9) percent qualifying for each per-piece discount provided under current rates;
 - (10) percent that is palletized;
 - (11) percent editorial content;
 - (12) percent of advertising pounds entered in each zone;
 - (13) average number of pieces per bundle;
 - (14) for sacked pieces, average number of pieces per sack;
 - (15) for palletized pieces, average number of pieces per pallet.

RESPONSE

- a. American Business Media does not routinely collect or maintain either ownership statements or mailing statements of publications and therefore has none of the requested documents.
- b. The only information that American Business Media has that is responsive to this question is contained in mail.dat files collected on a confidential basis from those members that chose to participate in a member survey conducted in the spring of 2001 for the purpose of developing an American Business Media position in a rate case. Thus, the data are more than three years old, and we have been advised generally and informally from those from whom we sought

Response of ABM to TW et al./ABM-4

permission to release the data in connection with this proceeding that in many cases the mailing characteristics such as weight, palletization, and sacking may have changed in the past three plus years. For this reason, *i.e.*, the data may no longer be relevant, and because mail.dat files contain information that is deemed by many publishers to be confidential and competitively sensitive, American Business Media objects to this interrogatory.

Notwithstanding this objection, because the age of the data make their release less of a confidentiality concern and in accordance with and subject to a nondisclosure agreement reached with complainants, American Business Media and its members are willing to make available the mail.dat files for 154 publications, representing most of the files in American Business Media's custody and control and all of the mail.dat files in American Business Media's custody or control for the six members that agreed to their release.

Response of ABM to TW et al./ABM-5

TW et al./ABM-5:

- a. Did ABM at any time after the filing of Time Warner et al.'s original complaint in January 2004, attempt to estimate the impact of the proposed rates on specific ABM-member publications?
- b. If yes, please identify the publications for which such an analysis was attempted and describe the method used to perform the analysis and the results obtained.
- c. Please also answer the following for each such publication.
 - (1) Was one or more mail.dat files used in the analysis? If yes, please provide an electronic copy of each mail.dat file used.
 - (2) Was an Access file generated in the process of analyzing the mail.dat information? If yes, please provide an electronic copy of the Access files used.
 - (3) Was an Excel spreadsheet generated in the process of analyzing the mail.dat information? If yes, please provide an electronic copy of the Excel files used.

RESPONSE

a. yes.

b. American Business Media objects to this question on the ground that the studies performed were conducted at the request of counsel for purposes of this litigation and therefore represent attorney work product that is not subject to discovery.

Notwithstanding this objection, in accordance with a nondisclosure agreement reached with complainants, American Business Media states its general understanding that the method used by the five member companies to analyze the impact of the proposed rates was for each to perform calculations employing both mail.dat files and an Access file developed and made available by the complainants to determine the postage that would be paid under the rates proposed for an actual, recent issue and comparing the result to the postage paid at today's rates. The one exception to this statement is that one member wishing to provide the

Response of ABM to TW et al./ABM-5

comparison requested by counsel was unable to perform the calculations even with the Access file and asked another member that had figured out the system to perform the calculations for it. The results obtained, which will be provided more specifically in response to part c, were in general that, of the 141 publications studied, 133 would pay increased rates under the proposed rates, ranging from insignificant to more than 80%, while 8 would see very small decreases (assuming no change in mailing practices).

c. American Business Media objects to this question on the ground that the studies performed were conducted at the request of counsel for purposes of this litigation and therefore represent attorney work product that is not subject to discovery.

Notwithstanding this objection, American Business Media, in accordance with an understanding and nondisclosure agreement reached with complainants, is willing to state that American Business Media does have and is willing to provide to complainants electronic versions of spreadsheets (covering all 141 publications) in the custody or control of American Business Media (modified when necessary only to delete the names of individual publications) that show certain billing determinants along with postage at present and proposed rates.

Response of ABM to TW et al./ABM-6

TW et al./ABM-6:

Please provide a table that indicates, for each ABM-member publication that is mailed under Periodicals rates, how fulfillment is performed for that publication, that is the planning of bundles at different presort levels to contain the individual mailed pieces, and sacks and pallets at different presort levels to contain the individual bundles for a given issue. Specifically, indicate for each such publication which of the following apply:

- a. fulfillment is performed manually, without any aid of a computer;
- b. it is performed using a computer program or methodology developed specifically for that publication;
- c. it is performed using a commercially available computer software program;
- d. the program used for fulfillment has the capability to count the number of bundles, sacks and pallets produced by a given mailing;
- e. the program used for fulfillment contains various optional parameters whose setting affects the number of bundles, sacks and pallets produced by a given mailing;
- f. the printer, rather than the individual publication or its owner, assumes responsibility for the fulfillment function, after the publisher provides a list of addresses to which the publication is to be mailed;
- g. *mail.dat* files are generated for each issue.

RESPONSE

American Business Media does not routinely collect or maintain information that will permit it to identify in any systematic way how fulfillment is performed for each American Business Media member publication.

a. through f. American Business Media does not have this information.

Response of ABM to TW et al./ABM-6

g. American Business Media does not routinely collect or maintain information that will permit it to identify in any systematic way which publications generate mail.dat files for each issue. In connection with a mailing characteristics survey undertaken in 2001, American Business Media collected mail.dat files for approximately 190 member publications. For further information please refer to the future response to TW et al./ABM-7.

Response of ABM to TW et al./ABM-7**TW et al./ABM-7**

Referring to your response to TW et al./ABM-6g, for each ABM-member publication for which mail.dat files are normally generated, please provide an electronic copy of such a file for a typical issue.

RESPONSE

The only mail.dat files in American Business Media's custody or control are those discussed and provided in response to TW et al./ABM-3(b).

Response of ABM to TW et al./ABM-8

TW et al./ABM-8:

- a. Please estimate as closely as possible the number of ABM-member publications that currently participate in:
 - (1) a co-mailing program; or
 - (2) a co-palletization program.
- b. Additionally, please identify those publications and for each such publication state:
 - (1) where it is being co-mailed or co-palletized;
 - (2) whether it is being co-mailed or just co-palletized;
 - (3) whether it is also part of a pool shipment program arranged by a printer or consolidator.

RESPONSE

American Business Media does not routinely collect or maintain information that will permit it to estimate the number of American Business Media member publications that currently participate in a co-mailing or co-palletization program. We do know from general knowledge that some periodicals published by Hanley Wood LLC and Quadrant Media Corporation co-palletize at RR Donnelley, that some periodicals published by Crain Communications co-palletize at QuadGraphics and that the periodicals of other members are co-palletized at Publishers Press. American Business Media believes that the number of publications in these programs is increasing and will continue to increase, and (as shown, for example by interrogatories TW et al./ABM-53 through 63) American Business Media is trying to educate members about the desirability of co-palletizing and co-mailing for many members.

Response of ABM to TW et al./ABM-9

TW et al./ABM-9:

For each ABM member that is a printer of Periodicals, please provide the following information:

- a. number of printing plants owned by the printer and location of each plant;
- b. total revenues and revenues from the printing and distribution of Periodicals;
- c. total number of Periodicals titles printed and the annual number of Periodicals copies;
- d. total number of ABM-member Periodicals titles printed and the annual number of copies for such Periodicals;
- e. whether the printer offers co-mailing and, if so, the number of titles that are co-mailed and the maximum number of titles that can be co-mailed together using the current equipment;
- f. whether the printer has current plans either to start a co-mailing program or to expand its existing co-mailing capacity;
- g. whether the printer offers co-palletization for titles that are not also co-mailed and, if so, the total number of such co-palletized titles;
- h. whether the printer arranges dropshipping to downstream postal facilities and, if so, the approximate number of downstream facilities reached by these pool shipments and the number of printed Periodicals that participate;
- i. whether the printer currently offers selective binding;
- j. whether the printer currently has a polywrap machine.

RESPONSE

a. through j. American Business Media does not routinely collect or maintain information about the operations of its printer members. We expect that much of this information is readily available from the printers themselves and from Time Warner, et al. witness Joe Schick. Nevertheless, based upon general information American Business Media can provide partial responses to the following parts:

Response of ABM to TW et al./ABM-9

- e. American Business Media knows that QuadGraphics offers co-mailing.
- f. Based upon a very recent announcement, American Business Media believes that Quebecor World has plans to start a co-mailing program.
- g. American Business Media knows that RR Donnelley, Publishers Press and Quad Graphics offers co-palletizing.
- h. American Business Media knows from Joe Schick's testimony in this docket that QuadGraphics arranges for dropshipping and expects that others do as well, including RR Donnelley, Quebecor World, and Brown.

Response of ABM to TW et al./ABM-10**TW et al./ABM-10:**

Please confirm that on the American Business Media (ABM) website (www.americanbusinessmedia.com) the "About" section contains (or contained as of July 21, 2004) the following statement:

"American Business Media has 229 member companies, representing over 3,000 print and electronic titles and more than 800 trade shows and events. They reach an audience of 100 million professionals and accounted for over \$19 billion in industry revenues in 2003."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-12**TW et al./ABM-12:**

Please confirm that the ABM website contains (or contained as of July 21, 2004) a digital version of the ABM 2002-2003 Annual Report.

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-13**TW et al./ABM-13:**

Please confirm that the digital version of the ABM 2002-2003 Annual Report states that it is: "Brought to you by NXT book media and Reprint Management Services."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-14**TW et al./ABM-14:**

Please confirm that the ABM website has (or had as of July 21, 2004) a link to NXT book media.

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-15**TW et al./ABM-15:**

Please confirm that www.nxtbookmedia.com contains examples of four publications and/or supplements that exist in a digital format: Club Industry, Folio:/Circulation Management, Managing Automation, and CMP Media, Call Center Magazine.

RESPONSE

American Business Media objects to this question on the ground that it asks American Business Media to confirm information on a website that American Business Media does not control or maintain and to which the complainants can refer with or without American Business Media's "confirmation" of what it contains.

Notwithstanding this objection, American Business Media confirms that the cited web site lists four publications and/or supplements that exist in digital format.

Response of ABM to TW et al./ABM-16**TW et al./ABM-16:**

Please confirm that the magazines and/or supplements referred to in the previous interrogatory are published by ABM member companies.

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-17**TW et al./ABM-17:**

Please confirm that the digital version of Club Industry plays the following statement when the publication is opened to page 1:

“Hello, and welcome to the revolution in Business to Business Publishing. The staff of Club Industry is pleased to provide you with a unique on-line publishing format. This format called E-Zine delivers Club Industry’s editorial content and advertising to your location faster, while at the same time, allowing you easy access complemented by new interactive features. Now, in it you will find the departments, columns and feature articles you are used to seeing in our print product, only sooner. Now, we will continue to print, publish and produce our regular paper product without interruption, and we assure you that you will continue to receive the regular monthly print product of Club Industry.”

RESPONSE

American Business Media objects to this question on the ground that it asks American Business Media to confirm information on a website that American Business Media does not control or maintain and to which the complainants can refer with or without American Business Media’s “confirmation” of what it contains.

Notwithstanding this objection, American Business Media confirms that the quote is a portion of the statement that is played.

Response of ABM to TW et al./ABM-18**TW et al./ABM-18:**

Please confirm that the digital version of Club Industry contains editorial content on page 3 and advertising content on page 4.

RESPONSE

American Business Media objects to this question on the ground that it asks American Business Media to confirm information on a website that American Business Media does not control or maintain and to which the complainants can refer with or without American Business Media's "confirmation" of what it contains.

Notwithstanding this objection, American Business Media confirms.

Response of ABM to TW et al./ABM-28**TW et al./ABM-28:**

Please confirm that the digital version of Managing Automation contains both advertising and editorial content.

RESPONSE

American Business Media objects to this question on the ground that it asks American Business Media to confirm information on a website that American Business Media does not control or maintain and to which the complainants can refer with or without American Business Media's "confirmation" of what it contains.

Notwithstanding this objection, American Business Media confirms.

Response of ABM to TW et al./ABM-29**TW et al./ABM-29:**

Please confirm that the digital version of Call Center Magazine contains both advertising and editorial content.

RESPONSE

American Business Media objects to this question on the ground that it asks American Business Media to confirm information on a website that American Business Media does not control or maintain and to which the complainants can refer with or without American Business Media's "confirmation" of what it contains.

Notwithstanding this objection, American Business Media confirms.

Response of ABM to TW et al./ABM-30**TW et al./ABM-30:**

Please confirm that the home tab at www.nxtbookmedia.com contains the following statement:

" Readers like NXTbooks. We continually survey our readers and have found that 93% indicate they enjoy reading or receiving a NXT book and over 90% indicated NXTbooks have enhanced content value, specifically the immediacy and depth offered versus hardcopy. In addition, 76% to 94% have indicated they perceive the NXTbook as a better source of information for their decision-making tasks."

RESPONSE

American Business Media objects to this question on the ground that it asks American Business Media to confirm information on a website that American Business Media does not control or maintain and to which the complainants can refer with or without American Business Media's "confirmation" of what it contains.

Notwithstanding this objection, American Business Media confirms.

Response of ABM to TW et al./ABM-31**TW et al./ABM-31:**

Please confirm that the ABM website contains (or contained as of July 21, 2004) a document entitled "REVIEW OF THE ABM ELECTRONIC MEDIA COMMITTEE WEB SURVEY RESULTS 2002, *Analysis and Commentary on the ABM Survey Responses*, Prepared by The Publishing & Media Group."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-32

TW et al./ABM-32:

Please confirm that the document referred to in the previous interrogatory states (at 11) under the caption "Profile of survey respondents":

- a. "This survey was sent electronically to all ABM members. After a second distribution, a total of forty three companies responded on a blind, unidentified basis. Review of the responses indicates that virtually all respondents were business media publishers with both traditional print media offerings as well as multiple Web and other digital offerings. The data presented herein reflects the opinions of these respondents."
- b. "Business media appears to be a sector of the publishing industry with a comparatively high reliance on electronic media. Respondents reported that they produce a wide range of e-media products, from traditional websites to electronic conferencing, custom-published e-newsletters and webcasting."
- c. "Electronic media appears to be evolving into a business norm. Every respondent to the survey has a presence on the web. In fact, the print magazine to website ratio is fairly even, with one website for just about every print magazine. This ratio does not decline as scale increases. About half of respondents produce six or more print magazines, and about half also have six or more websites. These statistics could suggest that many publishers believe that print is no longer enough. If a product comes out in paper, it should be matched with an electronic companion."
- d. "Beyond websites, the e-newsletter is the second most common type of e-media.

Of the 100% of respondents producing print magazines, 88% also distribute electronic newsletters. 42% of respondents produce one newsletter per print publication, while 46% produce two or more. Therefore, e-newsletters do not appear to be replacing print media, rather they are provided as an accompaniment or enhancement to print."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-33

TW et al./ABM-33:

Please confirm that the document referred to in the previous interrogatory reports the following results (at 12) under the caption "Profile of survey respondents":

"Q 1. What types of publications and/or content venues do you offer today? Check all that apply. (44 respondents)

	#	% ¹
#1 Controlled Circulation Magazines	37	84%
#2 Free E-Newsletters	36	82%
#3 Directories	30	68%
#4 Paid Magazines	29	66%
#5 Online Databases	19	43%
#6 Print Newsletters	14	32%
#7 CD-Rom Products	9	20%
#8 Paid E-Newsletters	4	9%
Other	8	18%

Q 2. How many print periodicals do you currently publish? (42 respondents)

	#	%		#	%
1-5:	22	52%	26-50:	4	10%
6-10:	5	12%	51-100:	3	7%
11-15:	2	5%	100 +:	2	5%
16-25:	4	10%			

Q 3. How many web sites do you have currently? (43 respondents)

	#	%		#	%
1-5:	24	56%	26-50:	4	9%
6-10:	7	16%	51-100:	2	5%
11-15:	2	5%	100 +:	1	2%
16-25:	3	7%			

¹ Throughout the report, # refers to the number of respondents who provided the answer, % refers to the percentage of total respondents who answered the question.

Response of ABM to TW et al./ABM-33

Q 4. How many E-mail newsletters do you offer per print publication? (43 respondents)²

	#	%
1:	18	42%
2-4:	12	27%
5-7:	3	7%
8+:	5	12%"

² In Q. 1, seven responded that they don't offer e-newsletters, in Q. 4, five report that they don't offer e-newsletters.

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-34**TW et al./ABM-34:**

Please confirm that the document referred to in the previous interrogatory states (at 25) under the caption "Electronic content and web capabilities":

"When asked about content, we found that 88% of respondents currently offer unique content on their websites that is not offered in their print titles."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-35**TW et al./ABM-35:**

Please confirm that the document referred to in the previous interrogatory states (at 14) under the caption "Financial performance of electronic media":

"Respondents were asked if their electronic media venue was producing a profit, after operating costs and actual revenue. To this question, 45% responded yes. When asked the same question, but after crediting their web site revenue or savings from other departments back to the web site, we see a five point lift, meaning 50% reported yes, their electronic media venue was producing a profit. Although like statistics are not available in other media segments, these numbers appear to be reassuringly high, especially considering that electronic media is still a comparatively new addition to the industry. These positive results combined with comments on future improvements to their electronic publishing venues, indicate that the financial contributions should continue to grow in the future."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-36

TW et al./ABM-36:

Please confirm that the document referred to in the previous interrogatory states (at 18) under the caption "Electronic media revenue generators":

- a. "Survey respondents reported several different sources of revenue within electronic media. The most commonly reported source is from advertising followed by paid subscriptions, digital article sales and product sales, and finally the sale of subscriber and registration lists.
Three-quarters of respondents cited online advertising as a source of electronic revenue. Over half of respondents reported 'specialty sponsorships' as the greatest source of ad revenue. Advertisers were noted as having a strong interest in sponsoring content compatible with their own products and mission, making a sponsorship more of a targeted business initiative than a general ad buy. The general ad buy, however--or in this case the 'CPM-based banner ad'--came in second as generating the most advertising revenue, with 34% of respondents. "
- b. "Still, online subscriptions to print publications – whether paid or controlled—are being offered by almost every respondent to the survey, with 90% currently making them available, and an additional 5% planning to offer subscriptions electronically. Even though there is very little direct revenue attached to these subscribers because most publications are controlled, the administrative savings of technology-generated names, along with building revenue-producing lists, and the growth of circulation for ad sales are all very valuable contributors, and are seen as such by respondents.

As more readers adapt to online as a media source, electronically produced print subscriptions are expected to increase."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-37**TW et al./ABM-37:**

Please confirm that the ABM website contains (or contained as of July 21, 2004) a document entitled "ABM Brand Extension Committee, Case Study Spot Light Series: TOPIC: WEB SITES."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-38**TW et al./ABM-38:**

Please confirm that the document referred to in the previous interrogatory contains (at 1) the following statements:

- a. "According to ABM's 2002 Publishing Cost Report, Internet revenues had grown to become a significant revenue source, at least for the largest publications. . . ."
- b. "While the revenue contribution was still relatively small, the profitability of Internet ventures reported in the 2002 survey was more impressive. The largest publications with 31 or more issues per year and revenues over \$10 million reported average profit from Internet activities of \$818,879, a contribution margin of 43%."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-39**TW et al./ABM-39:**

Please confirm that the document referred to in the previous interrogatory presents a case study of "fesmag.com, the Web site of *Foodservice Equipment & Supplies Magazine*," published by Reed Business Information.

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-40

TW et al./ABM-40:

Please confirm that the case study referred to in the previous interrogatory provides (at 2-3) the following descriptive information about fesmag.com:

- a. **"Concept:** Launch a Web site that meets the needs of our audience by allowing them to gain access to timely news and breaking stories, as well as to reach potential customers with online product promotions and other forms of advertising. . . ."
- b. **"Execution:** Positioned the site as the industry's only source of breaking news and webexclusive business information, including feature stories and department articles. . . ."
- c. **"Best practices:** . . . We found that the best way to drive traffic to fesmag.com was to provide our subscribers with exclusive news reports and feature stories that do not run in the print product."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-41**TW et al./ABM-41:**

Please confirm that the ABM website contains (or contained as of July 21, 2004) a document entitled "American Business Media Business Information Resources 2001 Survey."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-42**TW et al./ABM-42:**

Please confirm that the document referred to in the previous interrogatory reports (at 2-3) that "763 usable responses" were received from a survey sample of 2,100 domestic recipients of ABM member publications.

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-43**TW et al./ABM-43:**

Please confirm that the document referred to in the previous interrogatory states (at 1) as follows:

- a. "The objective of the survey was to develop a sense for how readers of b2b publications in a cross section of markets utilize publications and Web sites."
- b. "In the past month, 79% of the respondents reported they read or looked through a b2b publication in support of their work."
- c. "63% of [the respondents] surveyed said they visited a b2b Web site in the past month and 54% of those surveyed reported they had visited an advertiser's Web site."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-44**TW et al./ABM-44:**

Please confirm that the ABM website contains (or contained as of July 21, 2004) a document entitled "TIME WARNER & OTHERS FILE POSTAL RATE CASE By David Straus, Partner, Thompson Coburn," dated January 12, 2004.

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-45**TW et al./ABM-45:**

Please confirm that the document referred to in the previous interrogatory includes the following statement:

"Given the Postmaster General's continuing pledges not to raise rates before 2006, and because the Time Warner proposal would raise some rates while lowering others, we expect that the Postal Service would not implement any changes resulting from this case before the 2006 rate increase is put into effect."

RESPONSE

American Business Media objects to this question on the ground that it is not reasonably calculated to lead to the discovery of admissible evidence.

Notwithstanding this objection, American Business Media confirms.

Response of ABM to TW et al./ABM-46**TW et al./ABM-46:**

Please confirm that the ABM website contains (or contained as of July 21, 2004) a document entitled "Digital Media Best Practices: E-mail Newsletters – July 2003."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-47

TW et al./ABM-47:

Please confirm that the document referred to in the previous interrogatory states (at 1) as follows:

a. **"Introduction**

E-mail newsletters are one of the early success stories of digital media publishing. They strike a responsive chord among readers who want timely, regular information updates with the ability to get more in-depth information that is a click away. And they provide an effective and responsive venue for advertising clients. Thus, publishers have found them to be an ongoing source of ad revenue. . . ."

b. **"Methodology**

A five-person subcommittee of the Digital Media Council created a questionnaire covering all aspects of e-mail newsletter publishing: content development, circulation or audience development, advertising sales and distribution.

The committee then interviewed individual representatives of 16 publishing companies who are members of the American Business Media association. This group included: PennWell Corporation, McGraw-Hill Companies Inc., VNU-USA, Primedia Business Magazines & Media, Crain Communications, Inc., Summit Publishing, ST Media Group International, Sosland Publishing Co., Stamats Buildings Media, Edgell Communications, Hanley-Wood LLC, Jobson Publishing, IDG, Advanstar, Fairchild Publications, and Reed Business USA. . . ."

c. **"Overview**

All of the magazine publishers interviewed – regardless of size –were selected because they are publishing e-newsletters. Generally, these e-newsletters are associated with a magazine and Web site brand. Where there is more than one e-newsletter associated with a brand, the e-newsletters are targeted to different niches or sub-markets within the larger market or they have different purposes or roles.

Response of ABM to TW et al./ABM-47

The primary purpose of e-newsletters is generating revenue – and that is almost always through advertising. . . ."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-48**TW et al./ABM-48:**

Please confirm that the document referred to in the previous interrogatory states (at 3-4) as follows:

"Purpose of Newsletters . . .

- Provide Need-to-Know Information. . . . [E]-newsletters are an opportunity to provide targeted information that might not otherwise reach an audience or reach that audience in an easy-to-read, easy-to-take-action format. For example, e-newsletters are focused on breaking news, highlights of the Web site, short tips and advice, and even short highlights of the magazine, depending upon each brand and how the enewsletter supplements and complements other media of the brand.

- Generate Revenue. Most business-to-business publications have controlled magazine circulation, and that approach extends to e-newsletters. Thus, the predominant revenue model is advertising, and publishers are finding an interested group of advertisers who want to use this medium. . . ."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-49**TW et al./ABM-49:**

Please confirm that the document referred to in the previous interrogatory states (at 5, 6 and 8) as follows:

a. **"Content Types . . .**

- News: As implied in the concept of 'newsletters' a majority of the newsletters are about industry news. They are daily, bi-weekly or weekly. Generally it's difficult to be a 'news' newsletter with less frequency. The primary purpose is to continue to establish the brand as a leader in gathering and providing news about an industry – and be a 'must have' source."

b. **"Sources of Content . . .**

The sources of the content vary by e-newsletter with no one source dominant in publishing. Content depends upon the publisher and the market. If content is only based on the print product, publishers feel that the electronic version reduces the readership of the print version. Hence, if the only source of revenue is the print product, there are future revenue/profit problems in only re-purposing print content."

c. **"Circulation Size**

Newsletter circulation sizes range from 1,200 to 240,000 – with most hovering in the 20,000 to 40,000 range. . . ."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-50

TW et al./ABM-50:

Please confirm that the document referred to in the previous interrogatory states (at 12 and 15) as follows:

a. **"Metrics . . .**

- Best Practice

With electronic media, publishers have the ability, as never before, to measure response and to better understand their audiences. With this information, they can both tailor editorial content and help guide advertisers with their message and choice of media. . . ."

b. **"Advertising Revenue**

The revenue base for e-newsletters generally mirrors the revenue base associated with the print or online publication. If the magazine has controlled circulation and is supported by ad revenue, then the e-newsletter generally follows that model. If the magazine or Web site has a paid subscription base, then the e-newsletter is often a subscription product or part of the paid subscription product package. In the survey of publishers for this project, almost all were advertising based."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-51**TW et al./ABM-51:**

Please confirm that the ABM website contains (or contained as of July 21, 2004) a document entitled "Business-to-Business Media Study Final Report, Prepared for American Business Media . . . by Yankelovich Partners and Harris Interactive, October 4, 2001."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-52**TW et al./ABM-52:**

Please confirm that the document referred to in the previous interrogatory states (at 3) as follows:

"American Business Media has over 230 members, encompassing:

- Over 1,300 member publications
- Over 1,400 Web sites
- 181 industries
- 88.9 million readers
- Over \$23 billion in advertising revenue in 2000"

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-53

TW et al./ABM-53:

Please confirm that the document referred to in the previous interrogatory states (at 9, 13, 17-22 and 27 [footnotes omitted]) as follows:

- a. "Over the past two years, there has been a dramatic increase in time executives spend visiting b-to-b Web sites."
- b. "On a top-of-mind (unaided) basis, b-to-b media rank among the top sources of information for executives.

Professional/ Trade Magazines/Journals	46%
Internet/ Web Sites	44%"
- c. "Read B-to-B Magazine in Past Month 83%"
- d. "Visited B-to -B Web Site in Past Month 68%"
- e. "Number of B-to-B Magazine Titles Read During Past Month
Average = 4.6 titles"
- f. "Time Spent Reading B-to-B Magazines During Past Week
Average = 2 hours 15 minutes"
- g. "Number of Different B-to-B Web Sites Visited in Past Month
Average = 7.5 sites"
- h. "Time Spent Visiting B-to-B Web Sites Visited in Past Week
Average = 2 hours 46 minutes"
- i. "A LARGE NUMBER OF EXECUTIVES REPORT IN-DEPTH USE OF B-to-B WEB SITES
 Nearly half have searched archives of b-to-b Web sites, and one-third have purchased content. Figures are even higher when looking at only those executives reporting past month b-to-b Web site visitation."
- j. "•• B-to-B Web sites rate high for being 'primary sources for research' and providing 'access to the latest information.' "

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-54**TW et al./ABM-54:**

Please confirm that on January 7, 2004, there was an "ABM Breakfast Club" meeting on the subject "Co-Palletization."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-55**TW et al./ABM-55:**

Please confirm that the meeting referred to in the previous interrogatory included remarks by ABM President and CEO Gordon T. Hughes and presentations by ABM Postal Counsel David Straus and Vice President of Circulation and Database Development for Hanley Wood, LLC, Nick Canvar (Sic: Cavnar), who was at that date a member of both the Government Affairs Committee and the Circulation Committee for ABM and the Circulation Managers Advisory Committee for BPA International, and who was previously Vice President, Circulation for Intertec Publishing, a Primedia division and has also held positions at Crain Communications, International Thomson, and Cahners Publishing.

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-57**TW et al./ABM-57:**

Please confirm that the program for the meeting referred to in the previous interrogatory includes the following item:

"Co-Palletizing Small Circulation Magazines: A Case Study . . .

Nick Canvar (sic) will talk about how magazines with circulation as low as 16,000 can co-palletize, and how Hanley Wood's program has benefited the company."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-58**TW et al./ABM-58:**

Please confirm that a document distributed to attendees of the meeting referred to in the previous interrogatory, entitled "DAVID STRAUS: OUTLINE OF REMARKS ON CO-PALLETIZATION," includes the following item:

"3. Why the Postal Service, cheered on by MPA, TW, Conde Nast (and others) wants you to palletize.

- a. Pieces on pallets cheaper to handle, less prone to damage, less prone to bundle breakage.
- b. Reducing processing costs for some constrains rates for all."

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-59

TW et al./ABM-59:

Please confirm that a document distributed to attendees of the meeting referred to in the previous interrogatory, reproducing the slides used by Nick Canvar (sic) in his presentation on "Copalletization for the Small Magazine," includes (at the 6th, 8th, and 13th of 14 unpaginated pages) the following items:

a. **"Does it save money?"**

- Example: Publication with 21,351 copies, weighing 0.42 pounds
 - Postage with single entry: \$7,925
 - Postage with copalletization: \$6,662"

b. **"Does it improve mail efficiency?"**

- Dramatic reduction in sacks
- Delivery time from ADC/SCF entry point averages 3 to 9 days, compared to 8 to 14 for single entry
- Judging by subscriber complaints and some monitoring, HW has seen no degradation in delivery time"

c. **"Remember the long term!"**

- Small circ publishers need vendors to set up co palletizing and drop ship programs NOW!
- Alternative is dramatically higher postage costs
- Invest with your vendors today to build the systems you will need tomorrow"

RESPONSE

Confirmed.

Response of ABM to TW et al./ABM-65

TW et al./ABM-65:

Please refer to the instructions accompanying Time Warner, Inc. et al.'s first set of interrogatories to ABM, filed July 27, 2004, which state in part:

With respect to each question and subpart thereof, if information is not available in the exact format or level of detail requested, please provide responsive material in such different format or level of detail as is available. If ABM is unable to provide current information, please provide the most recent information available and identify the date or period to which that information applies. If ABM is unable to provide complete information, please provide any partial or representative information available that is responsive to the question.

Please refer also to ABM's response to TW et al./ABM-3.b(1)-(13), filed August 18, 2004, where you replied to thirteen separate questions about the characteristics of *ABM-member publications* that ABM "does not routinely collect or maintain information that will permit it to identify in any systematic way" the characteristic in question.

With respect to each subpart of TW et al./ABM-3.b:

- a. Please state when ABM last surveyed or made inquiry of its membership or any substantial portion thereof, whether directly or through an agent, formally or informally, regarding the characteristics in question;
- b. Please describe the results of such survey or inquiry;
- c. Please provide copies of any summaries or reports that were circulated to the ABM membership, to ABM's Board, or to any of ABM's committees concerning such survey or inquiry of its results (the identities of particular publishers and publications may be masked, and/or materials may be submitted subject to the terms of the existing Nondisclosure Agreement between ABM and Time Warner Inc. et al, dated August 27, 2004); and
- d. Please provide copies of all data or information collected through such survey or inquiry regarding the characteristic in question (the identities of particular publishers and publications may be masked, and/or materials may be submitted subject to the terms of the existing Nondisclosure Agreement between ABM and Time Warner Inc. et al, dated August 27, 2004).

Response of ABM to TW et al./ABM-65**RESPONSE**

a. The most recent survey began in March of 2001 and ran for several months, but it was a mailing characteristics study that relied upon mail.dat files received in response. To American Business Media's knowledge, it has never surveyed its members with respect to the information sought in Time Warner et al./ABM-3 (except to the extent that information responsive to parts 1 through 3 might be included in mail.dat files). Please note, however, that some of this information, such as information related to the nature and extent of electronic distribution, may be available in the directory section of American Business Media's web site, which as previously explained is updated by the members themselves.

b. There was no such study or inquiry.

c. Not applicable.

d. To the extent that any responsive information is contained in mail.dat files, it is American Business Media's understanding, recently confirmed with counsel for Time Warner, that the 155 mail.dat files already produced comply with this request.

Response of ABM to TW et al./ABM-66**TW et al./ABM-66:**

Please refer to the instructions accompanying Time Warner, Inc. et al.'s first set of interrogatories to ABM, filed July 27, 2003, which state in part:

With respect to each question and subpart thereof, if information is not available in the exact format or level of detail requested, please provide responsive material in such different format or level of detail as is available. If ABM is unable to provide current information, please provide the most recent information available and identify the date or period to which that information applies. If ABM is unable to provide complete information, please provide any partial or representative information available that is responsive to the question.

Please refer also to ABM's response to TW et al./ABM-8, filed August 18, 2004, where you replied to five questions concerning participation in co-mailing, co-palletization, and pool shipping by ABM-member publications that ABM "does not routinely collect or maintain information that will permit it to estimate the number of American Business Media member publications that currently participate in a co-mailing or co-palletization program."

With respect to each part and subpart of TW et al./ABM-8:

- a. Please state when ABM last surveyed or made inquiry of its publisher and/or printer members or any substantial portion thereof, whether directly or through an agent, formally or informally, regarding participation in co-mailing, co-palletization, and/or pool shipping;
- b. Please describe the results of such survey or inquiry;
- c. Please provide copies of any summaries or reports that were circulated to the ABM membership, to ABM's Board, or to any of ABM's committees concerning such survey or inquiry of its results (the identities of particular publishers and publications may be masked, and/or materials may be submitted subject to the terms of the existing Nondisclosure Agreement between ABM and Time Warner Inc. et al, dated August 27, 2004); and
- d. Please provide copies of all data or information collected through such survey or inquiry regarding the characteristic in question (the identities of particular publishers or publications may be masked, and/or materials may be submitted subject to the terms of the existing Nondisclosure Agreement between ABM and Time Warner Inc. et al, dated August 27, 2004).

Response of ABM to TW et al./ABM-66**Response**

- a. The explanation in response to Time Warner et al./ABM-8 to the effect that American Business Media “does not routinely collect or maintain information” of the type requested was intended to exclude only casual conversation, typically between members and counsel, in which the subject of co-mailing, co-palletizing or pool shipping by its members may have come up. There are no records of such conversations. American Business Media’s information on this subject is pretty much limited to the information in the testimony of its witnesses. Except to the extent that data produced as part of the 2001 survey would reveal the extent of co-mailing, co-palletizing or pool shipping, American Business Media has never surveyed or made inquiry of its publisher or printer members, formally or informally.
- b. See part a above.
- c. See part a above.
- d. See part a above.

Response of ABM to TW et al./ABM-67**TW et al./ABM-67**

Please refer to the instructions accompanying Time Warner, Inc. et al.'s first set of interrogatories to ABM, filed July 27, 2004, which state in part:

With respect to each question and subpart thereof, if information is not available in the exact format or level or detail requested, please provide responsive material in such different format or level of detail as is available. If ABM is unable to provide current information, please provide the most recent information available and identify the date or period to which that information applies. If ABM is unable to provide complete information, please provide any partial or representative information available that is responsive to the question.

Please refer also to ABM's response to TW et al./ABM-9.a-j, filed August 18, 2004, where you replied to ten questions concerning ABM members who are printers of Periodicals that ABM "does not routinely collect or maintain information about the operations of its printer members."

With respect to each subpart of TW et al./ABM-9-a-j:

- a. Please state when ABM last surveyed or made inquiry of its printer members or any substantial portion thereof, whether directly or through an agent, formally or informally, regarding the characteristic or subject in question;
- b. Please describe the results of such survey or inquiry;
- c. Please provide copies of any summaries or reports that were circulated to the ABM membership, to ABM's Board, or to any of ABM's committees concerning such survey or inquiry or its results (the identities of particular publishers and publications may be masked, and/or materials may be submitted subject to the terms of the existing Nondisclosure Agreement between ABM and Time Warner Inc. et al, dated August 27, 2004); and
- d. Please provide copies of all data or information collected through such survey or inquiry regarding the characteristic in question (the identities of particular publishers and publications may be masked, and/or materials may be submitted subject to the terms of the existing Nondisclosure Agreement between ABM and Time Warner Inc. et al, dated August 27, 2004).

Response of ABM to TW et al./ABM-68**Response**

a. American Business Media has never conducted such a survey or made such an inquiry. The previous reply to which you refer, in which American Business Media stated that it “does not routinely collect or maintain information” of the type requested was intended to exclude only casual conversation, typically between printers and American Business Media counsel, in which the subjects covered by the request may have come up. There are no records of such conversations. Please note, however, that the 155 mail.dat files previously produced contain certain printer information.

b. See part a above.

c. See part a above.

d. See part a above.

Response of ABM to TW et al./ABM-68

TW et al./ABM-68:

In its response to TW et al./ABM-5c (filed August 31, 2004), ABM refers to a recent analysis of the potential impact on 141 ABM publications, belonging to five ABM member organizations, of the rates proposed by Time Warner, Inc. et al. Additionally, ABM provided to Time Warner, Inc. et al. (pursuant to a Nondisclosure Agreement, dated August 27, 2004) an Excel spreadsheet, consisting of four distinct worksheets that together appear to summarize an analysis performed on 144 different publications. No names identifying the publications or their owners appear in the spreadsheet.

In a partial response to TW et al./ABM-7, ABM provided (pursuant to the same Nondisclosure Agreement) a CD containing 155 mail.dat files for ABM publications, dating back to 2001. ABM's filed response to TW et al./ABM-7 states that these files, which were collected in 2001 in anticipation of the filing of the R2001-1 rate case, are "[t]he only mail.dat files in American Business Media's custody or control."

- a. Please confirm that the number of ABM publications analyzed with respect to the potential impact of the proposed rate is 144, not 141 as stated in your previous response. If not confirmed, please explain.
- b. Please confirm that no names of publications or ABM member organizations appear in the spreadsheet referred to above. If not confirmed, please explain.
- c. Please confirm that, while TW et al./ABM-5C requested the Excel files generated in the analysis of each publication, none of the spreadsheets generated for each publication as part of the analysis using Access queries to analyze mail.dat files were provided. Please confirm also that removing publication names from those spreadsheets would have been a trivial matter.
- d. Please confirm that none of the 155 mail.dat from 2001 that have been provided to Time Warner Inc. et al. were among the 144 files analyzed more recently.
- e. Please confirm that the 144 files analyzed this year were at the time of their analysis recent mail.dat files that reflected then current mail preparation.
- f. Please confirm that copies of these more recent 144 mail.dat files are in the custody of a consultant or consultants retained by ABM to perform the analysis and are also in the custody and control of ABM members who participated in the analysis and who are supporting ABM's activities in these proceedings.
- g. Was Crain Communications one of the five member organizations that provided mail.dat files for the recent analysis?
- h. Was VNU Business publications one of the five member organizations that provided mail.dat files for the recent analysis?

Response of ABM to TW et al./ABM-68

- i. Was Hanley Wood one of the five member organizations that provided mail.dat files for the recent analysis?
- j. Of the three witnesses whose testimony ABM sponsors in this case, who, if any, was directly involved in the analysis of the 144 publications?
- k. Please provide without further delays copies of the 144 mail.dat files as well as the 144 Excel spreadsheets generated in their analysis. (The identities of particular publishers and publications may be masked; Time Warner, Inc. et al. stipulated that these materials are subject to the terms of the existing Nondisclosure Agreement between ABM and Time Warner Inc. et al, dated August 27, 2004).

RESPONSE

a. Actually, in looking again at this exhibit and its backup, we realized that it contains 153 publications not 144. Line 77 contains combined data for five co-palletized publications and line 78 contains combined data for nine co-palletized publications, while lines 132-34 were unintentional repetitions of line 131. A corrected and enhanced exhibit is being filed in response to POIR-3.

b. Confirmed.

c. Confirmed that complainants requested the Excel files generated in the analysis and that they were not provided. In accordance with the understanding between counsel, American Business Media provided the summary spreadsheets in its custody or control (with names of titles removed) that showed the impact of the proposed rates on American Business Media member publications. American Business Media never had custody of or control over any Excel files generated in the analysis of each publication.

Response of ABM to TW et al./ABM-68

American Business Media does not know for certain but assumes that each of the publishers could have removed publication names from any spreadsheets they generated.

d. We believe this to be true, since American Business Media members were asked to analyze a recent issue, and because it is our understanding that retention of mail.dat files is in any event not a normal practice.

e. We believe this to be the case, although American Business Media did not ask those members that performed the analysis what date(s) were studied.

f. Not confirmed. You have not asked us to explain why we cannot confirm, but we will explain, given the implication of the request. To American Business Media's knowledge, none of the mail.dat files used as by members as a basis for analyzing the impact of the proposed rates was ever in the custody of any consultant. Except for the one member that asked another to perform the calculations (see testimony of McGarvy at 8, lines 18-19), each of the members that provided estimates of impact performed its own calculations and reported them to, and only to, American Business Media's counsel. As for whether the mail.dat files are in the custody and control of the members that participated in the analysis, we have learned based on our inquiry that only one of the participants has saved those files, because they are normally not retained from issue to issue.

Response of ABM to TW et al./ABM-68

g. Crain Communications performed an analysis, but it did not “provide” its mail.dat files to anyone.

h. VNU performed an analysis but did not “provide” its mail.dat files to anyone.

i. Hanley Wood did not perform the analysis.

j. No witness was directly involved in the analysis of all 153 publications. Witness McGarvy was involved in the analysis of the Crain and ComputerWorld publications that were analyzed, and witness Bradfield was involved in the analysis of the VNU publications that were analyzed.

k. American Business Media does not, and never did, have either custody or control of the mail.dat files and Excel spreadsheets referenced. Moreover, it is our understanding, upon inquiry following the receipt of this interrogatory, that neither the mail.dat files nor the individual spreadsheets have been retained by three of the five member companies whose publications were analyzed. The Excel spreadsheets but not the mail.dat files have been retained by one participant, and both have been retained by another. Crain Communications and VNU are among the three participants that preserved neither.

Response of ABM to TW et al./ABM-69

TW et al./ABM-69:

The attached table, ABM116_144, is taken from an Excel spreadsheet named 1f1sg01!.xls that was provided by ABM counsel and appears to present somewhat more detailed results from the analysis performed, based on mail.dat files, of ABM publications and summarized in lines 116 through 144 of witness Bradfield's Exhibit LB-1. Lines 132-134 have been removed because, as pointed out in Bradfield's response to TW et al./ABM-T2-8, they were repetitions of line 131.

- a. Please confirm that the results in the attached table correspond to those on the fourth worksheet in the Excel file provided by ABM counsel to the complainants.
- b. Please confirm that the publication numbers in the first column correspond to the line numbers in Exhibit LB-1.
- c. Please confirm that the last column in the table gives the percent change in postage that was estimated for each publication if the rates proposed in this docket were to take effect.
- d. Please confirm that the five highest percent increases under the proposed rates are, respectively, 81%, 65%, 38%, 28% and 16%, for publication numbers 121, 128, 119, 144 and 136.
- e. Please confirm that the column labeled "sack minimum" represents the values of the parameter for minimum number of pieces per sack used in developing the presort scheme for each publication. If not confirmed, what do the numbers in this column mean?
- f. Please confirm that the value of the "sack minimum" parameter is equal to 6 for publication numbers 121, 128, 119, 144 and 136, the five publications that would experience the highest increases under the proposed rates, while it is equal to 24 for all the other publications in the table, except publication 131 for which the parameter is not specified. Please confirm also that for publications 121, 128, 119, 144 and 136 the average number of pieces per sack is shown in the table as either 13 or 14, while it ranges from 38 to 66 for all the other publications.
- g. Please provide the frequency (number of issues per year) for the 26 publications.

Response of ABM to TW et al./ABM-69**RESPONSE**

- a. Without checking every number, they appear to correspond to the worksheet provided to American Business Medias counsel and by him to Time Warner.
- b. Confirmed
- c. Confirmed.
- d. Confirmed.
- e. Confirmed.
- f. Confirmed.
- g. All are issued 12 times per year, except publications 123 and 142, which are issued 6 times per year, and publication 131, which is issued 48 times per year.

Response of ABM to TW et al./ABM-69

Table ABM116 144:

Public ation	Weight (lbs)	AD %	# of pieces	# of bundles	# of pallets	# of sacks	Avg. pes per bundle	Pallet ized pieces	% pallet ized	Avg. pes per pallet	Sacked pieces	% sacked	Avg. pes per sack	Avg. wgt per sack	Sack mini mum	Current Postage	New Postage	% increase
116	0.21	43.04%	18,060	2,101	1	331	9	1598	8.85%	1598	16462	91.15%	50	10.4	24	\$5,022	\$5,629	12.09%
117	0.23	35.83%	35,723	3,527	4	458	10	5805	16.25%	1451	29918	83.75%	65	15.0	24	\$9,601	\$10,428	8.61%
118	0.22	50.40%	24,229	2,469	0	407	10	0	0.00%	0	24229	100.00%	60	13.1	24	\$7,228	\$7,754	7.28%
119	0.66	46.16%	29,405	4,242	20	1552	7	8507	28.93%	425	20898	71.07%	13	8.9	6	\$12,121	\$16,723	37.97%
120	0.18	51.00%	36,064	4,427	0	678	8	0	0.00%	0	36064	100.00%	53	9.6	24	\$10,340	\$11,347	9.74%
121	0.19	46.20%	29,540	3,331	0	2272	9	0	0.00%	0	29540	100.00%	13	2.5	6	\$7,799	\$14,115	80.98%
122	0.72	59.56%	102,771	13,106	130	250	8	91363	88.90%	703	11408	11.10%	46	32.9	24	\$45,794	\$47,840	4.47%
123	0.18	49.00%	22,805	3,155	0	523	7	0	0.00%	0	22805	100.00%	44	7.8	24	\$6,356	\$7,304	14.92%
124	0.48	48.06%	40,808	5,096	25	375	8	20465	50.15%	819	20343	49.85%	54	26.0	24	\$14,859	\$15,728	5.85%
125	0.17	36.94%	12,752	1,407	0	260	9	0	0.00%	0	12752	100.00%	49	8.3	24	\$3,481	\$3,925	12.75%
126	0.39	49.48%	33,774	3,620	11	404	9	9217	27.29%	838	24557	72.71%	61	23.7	24	\$11,397	\$12,073	5.93%
127	0.69	64.05%	52,012	6,045	68	297	9	38530	74.08%	567	13482	25.92%	45	31.3	24	\$22,838	\$23,980	5.00%
128	0.24	50.86%	22,948	2,587	2	1560	9	2483	10.82%	1241	20465	89.18%	13	3.1	6	\$6,614	\$10,918	65.07%
129	0.34	45.82%	32,087	3,869	10	415	8	10223	31.86%	1022	21864	68.14%	53	17.9	24	\$9,863	\$10,611	7.58%
130	0.18	28.13%	36,373	3,649	2	505	10	2910	8.00%	1455	33463	92.00%	66	11.9	24	\$9,032	\$9,917	9.80%
131	0.47	26.80%	29,357	3,466	20	328	8	15536	52.92%	777	13821	47.08%	42	19.8	?	\$8,346	\$8,748	4.82%
135	0.25	55.00%	16,345	1,774	3	215	9	6592	40.33%	2197	9753	59.67%	45	11.3	24	\$4,775	\$5,054	5.84%
136	0.52	67.00%	14,617	1,990	10	351	7	10133	69.32%	1013	4484	30.68%	13	6.6	6	\$5,434	\$6,310	16.12%
137	0.17	58.75%	28,301	3,135	1	433	9	1896	6.70%	1896	26405	93.30%	61	10.4	24	\$7,971	\$8,556	7.34%
138	0.99	41.00%	50,646	9,211	87	415	5	34951	69.01%	402	15695	30.99%	38	37.4	24	\$24,747	\$27,862	12.59%
139	0.38	47.37%	67,545	9,881	20	1065	7	18143	26.86%	907	49402	73.14%	46	17.6	24	\$22,200	\$24,630	10.95%
140	0.23	54.77%	29,942	3,337	3	502	9	3650	12.19%	1217	26292	87.81%	52	12.0	24	\$8,689	\$9,505	9.39%
141	0.44	67.63%	18,569	2,423	10	246	8	7186	38.70%	719	11383	61.30%	46	20.4	24	\$7,188	\$7,609	5.86%
142	0.39	59.00%	18,514	2,851	0	420	6	1559	8.42%	0	16955	91.58%	40	15.7	24	\$6,762	\$7,332	8.43%
143	0.27	52.20%	27,097	2,917	5	387	9	5376	19.84%	1075	21721	80.16%	56	15.2	24	\$8,168	\$8,764	7.30%
144	0.36	58.96%	56,521	6,189	31	1921	9	28933	51.19%	933	27588	48.81%	14	5.2	6	\$18,589	\$23,868	28.40%

Response of ABM to TW et al./ABM-70**TW et al./ABM-70:**

The attached table, ABM1_75, is taken from an Excel spreadsheet named 1f1sg01!.xls that was provided by ABM counsel and appears to present somewhat more detailed results from the analysis performed, based on mail.dat files, of ABM publications and summarized in lines 1 through 75 of witness Bradfield's Exhibit LB-1.

- a. Please confirm that the results in the attached table correspond to those on the first worksheet in the Excel file provided by ABM counsel to the complainants.
- b. Please confirm that the publication numbers in the first column correspond to the line numbers in Exhibit LB-1.
- c. Please confirm that the sixth column in the table gives the percent change (increase or decrease) in postage that was estimated for each publication if the rates proposed in this docket were to take effect.
- d. Please confirm that the last column, labeled "sack minimum," represents the values of the parameter for minimum number of pieces per sack used in developing the presort scheme for each publication. If not confirmed, what do the numbers in this column mean?
- e. Please confirm that seven of the 75 publications, numbered as 58 and 70 through 75, would have postage increases over 20%, but that of the 68 others none would have increases higher than 13%.
- f. Please confirm that publication 58 uses a sack minimum of 6, publications 70 through 75 use a minimum of 12 and that the 68 other publications (except number 48 for which the minimum is not specified) use sack minimums of 24 pieces. Please explain if not confirmed.
- g. Please confirm that publications 58, 70, 71 and 72 are published monthly and that publications 73, 74 and 75 are published twice a month.
- h. Please confirm that publications 57 (circulation 17,000), 61 (circulation 10,800) and 65 (circulation 7000) all would experience lower postage under the proposed rates, while the 11 publications with circulation over 100,000 all would have higher postage.

RESPONSE

- a. Without checking every number, they appear to correspond to the worksheet provided to American Business Medias counsel and by him to Time Warner.
- b. Confirmed.
- c. Confirmed.

Response of ABM to TW et al./ABM-70

- d. Confirmed.
- e. Confirmed.
- f. Confirmed.
- g. Confirmed.
- h. Confirmed, although please note that publications 61 and 65 are not typical for *this publisher because they have concentrated, regional distribution, and publication 58, while listed as “national,” also has highly concentrated distribution (in two metropolitan markets). Also note that none of the publications with circulation in excess of 100,000 has circulation in excess of 174,000.*

Response of ABM V et al./ABM-70

Table ABM1_75:

Publication	Distribution	freq	Current Annual Postage	Proposed Annual Postage	% Postage Difference	Approx Circ	3-Dig Count	5-Dig Count	Cr Count	Firm Count	% On pallets	Avg Pcs Per Sack	% Dest Entry	Per Issue Current Postage	Per Issue New Postage	Avg. weight	Sack minimum
1	National	18	\$564,552	\$624,600	10.64	153,500	18,061	44,571	14,161	8,899	89	35	0.4	\$31,364	\$34,700	0.53	24
2	National	26	\$766,870	\$793,702	3.50	126,000	18,895	54,816	17,237	2,329	77	49	0.3	\$29,495	\$30,527	0.36	24
3	National	12	\$222,900	\$238,176	6.85	83,000	18,861	41,305	8,895	1,281	48	51	0.3	\$18,575	\$19,848	0.23	24
4	National	12	\$76,632	\$85,152	11.12	32,000	7,877	8,766	1,872	662	35	45	0.5	\$6,386	\$7,096	0.36	24
5	National	12	\$83,004	\$89,544	7.88	26,000	10,701	9,040	598	158	12	49	0.5	\$6,917	\$7,462	0.31	24
6	National	11	\$477,026	\$528,077	10.70	131,700	51,268	63,115	204	4,524	76	39	0.5	\$43,366	\$48,007	0.45	24
7	National	12	\$109,092	\$119,952	9.94	44,000	13,051	17,010	1,444	279	22	50	0.3	\$9,091	\$9,996	0.22	24
8	National	12	\$255,912	\$268,632	4.97	77,300	18,794	47,674	4,180	628	61	50	0.4	\$21,326	\$22,386	0.36	24
9	National	12	\$117,972	\$130,272	10.42	46,000	14,435	19,500	2,188	688	14	51	0.4	\$9,831	\$10,856	0.19	24
10	National	12	\$181,764	\$191,928	5.59	77,000	17,950	33,158	2,035	111	18	57	0.5	\$15,147	\$15,994	0.25	24
11	National	12	\$119,364	\$131,292	10.00	64,000	12,942	15,086	106	3,458	3	47	0.3	\$9,947	\$10,941	0.21	24
12	National	12	\$277,908	\$307,416	10.62	92,500	20,072	42,890	12,903	1,561	83	44	0.4	\$23,159	\$25,618	0.30	24
13	National	12	\$232,416	\$243,660	4.84	68,000	16,871	36,650	6,772	500	51	51	0.3	\$19,368	\$20,305	0.37	24
14	National	12	\$274,596	\$292,020	6.35	99,000	19,687	50,993	17,993	1,227	73	50	0.5	\$22,883	\$24,335	0.21	24
15	National	12	\$147,756	\$157,464	6.57	42,000	15,717	19,352	1,995	421	37	49	0.5	\$12,313	\$13,122	0.34	24
16	National	21	\$1,015,245	\$1,026,522	1.11	157,500	20,822	102,611	28,073	611	89	49	0.5	\$48,345	\$48,882	0.43	24
17	National	12	\$150,132	\$160,488	6.90	48,000	15,850	25,080	270	434	6	53	0.5	\$12,511	\$13,374	0.31	24
18	National	12	\$88,944	\$96,504	8.50	21,000	14,940	3,690	0	172	0	43	0.5	\$7,412	\$8,042	0.33	24
19	National	11	\$178,156	\$185,317	4.02	54,000	15,279	26,303	4,282	813	30	40	0.3	\$16,196	\$16,847	0.38	24
20	National	11	\$99,341	\$111,177	11.91	38,000	7,714	15,470	2,456	907	21	40	0.4	\$9,031	\$10,107	0.38	24
21	National	12	\$106,068	\$117,144	10.40	36,500	13,713	12,612	539	632	3	46	0.2	\$8,839	\$9,762	0.24	24
22	National	20	\$474,180	\$494,460	4.27	96,500	19,681	50,681	15,492	1,108	61	50	0.4	\$23,709	\$24,723	0.28	24
23	National	6	\$221,922	\$226,956	2.27	152,000	20,740	102,339	24,568	380	80	52	0.5	\$36,987	\$37,826	0.24	24
24	National	12	\$284,172	\$294,768	3.73	76,000	29,418	42,368	1,582	253	71	56	0.5	\$23,681	\$24,564	0.34	24
25	National	12	\$256,596	\$268,572	4.67	87,000	19,336	42,631	8,983	1,459	58	50	0.4	\$21,383	\$22,381	0.30	24
26	National	12	\$241,368	\$257,352	6.62	100,000	17,414	38,031	14,633	3,030	75	47	0.5	\$20,114	\$21,446	0.27	24
27	National	12	\$199,464	\$218,232	9.41	82,000	17,791	40,335	8,318	1,217	46	48	0.3	\$16,622	\$18,186	0.22	24
28	National	12	\$98,532	\$110,892	12.55	42,000	11,458	13,743	664	1,414	10	46	0.4	\$8,211	\$9,241	0.29	24
29	National	12	\$264,996	\$284,040	7.19	76,000	29,887	34,875	1,844	406	26	48	0.5	\$22,083	\$23,670	0.31	24

Response of ABM V et al./ABM-70

30	National	12	\$291,744	\$310,548	6.45	101,000	21,624	51,043	19,837	1,784	80	49	0.4	\$24,312	\$25,879	0.20	24
31	National	12	\$121,380	\$132,840	9.44	38,000	11,794	21,056	1,156	393	13	48	0.4	\$10,115	\$11,070	0.26	24
32	National	12	\$372,492	\$390,156	4.74	163,000	23,546	60,376	18,987	7,184	70	45	0.3	\$31,041	\$32,513	0.25	24
33	National	12	\$234,912	\$255,156	8.62	91,700	18,777	47,642	8,381	1,697	34	50	0.4	\$19,576	\$21,263	0.16	24
34	National	12	\$255,048	\$270,600	6.09	96,600	19,479	41,204	11,308	2,150	66	48	0.4	\$21,254	\$22,550	0.28	24
35	National	26	\$157,742	\$162,422	2.96	22,000	9,701	8,259	0	223	0	48	8.4	\$6,067	\$6,247	0.39	24
36	National	12	\$187,584	\$197,796	5.45	63,700	15,369	25,522	5,957	1,258	38	48	0.4	\$15,632	\$16,483	0.35	24
37	National	12	\$256,200	\$274,308	7.07	98,000	18,618	47,985	16,762	1,677	68	49	0.4	\$21,350	\$22,859	0.27	24
38	National	11	\$41,558	\$45,188	8.72	10,600	7,974	1,569	0	20	0	41	0.1	\$3,778	\$4,108	0.36	24
39	National	11	\$116,391	\$125,081	7.46	43,000	13,550	19,792	1,838	710	19	50	0.4	\$10,581	\$11,371	0.24	24
40	National	12	\$406,092	\$419,856	3.39	102,000	24,545	38,742	11,054	2,689	73	41	0.4	\$33,841	\$34,988	0.69	24
41	National	11	\$227,381	\$236,687	4.09	65,000	21,454	42,214	589	61	71	56	0.5	\$20,671	\$21,517	0.37	24
42	National	12	\$316,824	\$352,224	11.18	174,000	17,702	45,809	25,039	7,425	84	41	0.4	\$26,402	\$29,352	0.27	24
43	National	25	\$151,425	\$160,300	5.86	28,000	11,295	10,057	33	346	0	46	27.2	\$6,057	\$6,412	0.21	24
44	National	12	\$68,892	\$75,816	10.06	21,000	11,007	5,814	45	312	0	46	0.4	\$5,741	\$6,318	0.34	24
45	National	12	\$89,472	\$97,836	9.35	35,000	8,603	11,266	2,343	844	28	44	0.2	\$7,456	\$8,153	0.34	24
46	National	6	\$69,438	\$76,002	9.45	46,000	17,044	25,733	1,906	76	31	54	0.5	\$11,573	\$12,667	0.21	24
47	National	12	\$73,344	\$78,912	7.58	19,700	7,633	6,242	193	272	9	41	0.2	\$6,112	\$6,576	0.57	24
48	National	12	\$130,620	\$140,856	7.83	27,200	12,307	4,732	0	0	36	32	0.8	\$10,885	\$11,738	0.84	
49	National	51	\$212,262	\$222,564	4.87	17,600	8,133	3,154	858	96	0	29	39.3	\$4,162	\$4,364	0.29	20
50	National	266	\$563,388	\$594,244	5.48	7,000	4,455	1,844	0	0	0	38	16.7	\$2,118	\$2,234	0.20	20
51	National	12	\$320,268	\$344,520	7.57	55,000	20,956	20,099	1,329	19	66	30	0.1	\$26,689	\$28,710	1.14	20
52	National	20	\$147,640	\$164,460	11.39	18,000	13,157	2,001	405	132	27	25	0.2	\$7,382	\$8,223	0.67	20
53	National	51	\$228,990	\$242,964	6.11	16,000	9,131	2,210	914	197	0	27	32.9	\$4,490	\$4,764	0.33	20
54	National	51	\$294,168	\$312,018	6.08	26,000	12,165	5,150	0	112	13	29	26.5	\$5,768	\$6,118	0.35	20
55	National	12	\$195,348	\$211,944	8.50	37,000	28,571	3,358	563	0	45	28	0.3	\$16,279	\$17,662	0.77	20
56	National	51	\$26,673	\$27,693	3.89	2,200	869	329	0	0	0	27	47.9	\$523	\$543	0.22	20
57	National	51	\$268,668	\$249,441	(7.16)	17,000	9,556	4,298	112	7	0	36	43.4	\$5,268	\$4,891	0.55	20
58	National	12	\$135,228	\$176,484	30.51	31,300	16,569	7,110	0	0	0	31	0.7	\$11,269	\$14,707	0.73	6
59	Regional	12	\$26,256	\$27,816	5.91	8,300	1,984	5,644	288	0	69	72	0.0	\$2,188	\$2,318	0.21	24
60	Regional	12	\$28,176	\$28,836	2.35	8,700	2,959	5,202	0	1	0	80	0.0	\$2,348	\$2,403	0.22	24
61	Regional	12	\$34,692	\$34,572	(0.35)	10,800	3,696	5,766	98	5	39	145	0.6	\$2,891	\$2,881	0.31	24
62	Regional	12	\$20,412	\$20,772	1.74	6,300	2,288	3,667	0	1	0	71	0.1	\$1,701	\$1,731	0.24	24
63	Regional	12	\$39,540	\$40,500	2.42	11,600	4,899	6,206	49	2	28	78	0.0	\$3,295	\$3,375	0.23	24

Response of ABM ' V et al./ABM-70

64	Regional	12	\$29,088	\$29,856	2.65	8,800	3,075	5,214	26	2	0	79	0.0	\$2,424	\$2,488	0.25	24
65	Regional	12	\$21,960	\$21,264	(3.19)	7,000	2,625	3,748	187	1	78	55	6.0	\$1,830	\$1,772	0.25	24
66	Regional	12	\$39,072	\$41,412	5.97	10,500	2,280	7,562	255	2	69	63	0.0	\$3,256	\$3,451	0.32	24
67	Regional	12	\$33,276	\$35,100	5.48	10,400	2,280	7,525	292	2	89	68	0.0	\$2,773	\$2,925	0.22	24
68	Regional	12	\$24,156	\$24,936	3.23	7,300	1,861	4,608	431	1	34	68	0.1	\$2,013	\$2,078	0.24	24
69	Regional	12	\$23,340	\$25,128	7.65	7,000	1,929	4,607	153	4	86	64	0.0	\$1,945	\$2,094	0.26	24
70	National	12	\$178,980	\$214,800	20.01	40,500	11,325	24,736	2,204	340	77	18	0.3	\$14,915	\$17,900	0.53	12
71	National	12	\$187,116	\$229,704	22.76	49,500	11,891	30,894	2,418	515	78	17	0.3	\$15,593	\$19,142	0.43	12
72	National	12	\$101,412	\$125,400	23.65	21,800	11,356	7,980	457	89	36	19	0.3	\$8,451	\$10,450	0.55	12
73	National	24	\$962,784	\$1,297,608	34.78	160,000	49,933	39,170	4,846	701	29	16	0.0	\$40,116	\$54,067	0.38	12
74	National	24	\$815,592	\$1,134,384	39.09	88,000	49,149	14,260	571	320	21	14	0.3	\$33,983	\$47,266	0.42	12
75	National	24	\$247,656	\$348,888	40.88	39,000	110,088	19,252	4,773	439	14	19	0.3	\$10,319	\$14,537	0.27	12

McGraw-Hill Companies, Inc., The

**David Schaefer
(MH-T-1)**

Response of Witness Schaefer to TW et al./MH – T1 - 1

TW et al./MH-T1-1. For each McGraw-Hill publication, please provide all memos, analyses, and spreadsheets that have been created to illustrate how the publication could modify its mailing practices if the complainants proposed rates were implemented.

RESPONSE:

No such documents have been created to the best of my knowledge.

Response of Witness Schaefer to TW et al./MH – T1 – 2

TW et al./MH-T1-2. On page 5, lines 18-20, of your testimony, you refer to now-defunct Platt's Energy Business and Technology (herein PEBT), and say that it would have received a 28.2 percent rate increase under the proposed rates. For that publication, please address the following questions.

- (a) What was the most recent circulation of PEBT, and what proportion of that circulation was delivered through the Postal Service?
- (b) What was the proportion of advertising of PEBT?
- (c) What proportion of mailed PEBT pieces were in firm bundles?
- (d) What proportion of PEBT pieces were sent to firm addresses?
- (e) What was the estimated average annual income of persons receiving PEBT?
- (f) Since the rates proposed by Time Warner Inc. et al. are designed to move postage toward costs, do you agree that the ECSI-adjusted postage paid by PEBT was approximately 22 percent ($0.282/1.282$) below the Postal Service's costs of handling and delivering PEBT, and therefore that PEBT went out of business despite receiving a 22 percent subsidy of its delivery costs? (ECSI-adjusted postage means the postage that would exist if the pieces had a subclass-average proportion of editorial content and therefore that any extent to which the postage is below costs is not due to deference for editorial content.) Please explain any disagreement and provide your own perspective on what the postal costs for handling PEBT might be.
- (g) Assuming PEBT was receiving a 22-percent subsidy of its delivery costs, please explain whether it would be your contention that a larger subsidy would have kept it in business, and if so, how much larger that subsidy should be.
- (h) Thinking in terms of a business plan for prospective publications or for publications like PEBT, is it your contention that the Postal Service should systematically offer such publications subsidized rates, beyond any benefit they receive for their editorial content, in order to make it more likely that the plan will show a net profit for the prospective publisher or publisher? If so, please outline the factors that the Postal Service should consider in judging the worth of the publication or in deciding how much subsidy to provide.

- (i) If a subsidy is to be provided, please explain who it is that should pay the subsidy.
- (j) On page 6, line 21, you state that McGraw-Hill publications “must stand on their own financially.” Does this mean that McGraw-Hill demands strict profit-and-loss accountability for each publication in its portfolio but that the Postal Service should contribute subsidized rates to the financial equation? Explain any non-yes answer.
- (k) Suppose that McGraw-Hill has a small publication with below-cost postage that is very profitable. Do you agree that the subsidy provided by the Postal Service goes directly to the McGraw-Hill bottom line, serving to increase the profits of the publication beyond what they would otherwise be? Explain any non-yes answer.

RESPONSE:

- (a) 41,034 copies , 74% of which was delivered by the Postal Service.
- (b) 27%
- (c) 12.31%
- (d) 9.8%
- (e) McGraw-Hill never compiled the requested information and is unable to answer this question.
- (f) I am neither a postal cost expert nor a rate design expert, and I am therefore unable to confirm or comment substantively.
- (g) I make no such contention.
- (h) I make no such contention. I have simply stated my view that providing appropriate discounts from rates that are based on averaged costs of

outside-county Periodicals is a better approach than a radical de-averaging of those costs. See part VI.A.1 of my direct testimony.

(i) See my answer to subpart (h) above.

(j) The quoted statement does not have the meaning you suggest. See my answer to subpart (h) above.

(k) See my answer to subpart (h) above. While below-cost postage may improve the profitability (or mitigate the unprofitability) of a publication, this would not apparently depend on the size of the publication or the degree to which it is otherwise profitable.

Response of Witness Schaefer to TW et al./MH – T1 – 3

TW et al./MH-T1-3. Please refer to Charts A, B, and C on pages 7-13 of your testimony.

- (a) You indicate on page 7, line 25, that you focused on “postage increases.” Please explain whether you have in fact focused on unit postage increases, so that your curves are not affected by changes in volume levels.
- (b) You indicate on page 8, line 7, that you have made adjustments “for changes in the rate structure over the period.” Please describe in detail the nature of the adjustments that you made and how you recognized changes in the rate structure.
- (c) Please explain whether your curves have the character of a per-piece postage index or of a price index. If they are a price index, please outline what quantity weights you used and whether the indexes are based on an unchanged set of quantity weights or whether they are link relative in character.
- (d) If your indexes are per-piece postage in character, please discuss the meaning that should be attached to a comparison between a per-piece postage index and a price index such as the CPIU.
- (e) Do you agree that there are factors that affect per-piece postage indexes that do not affect price indexes? Explain any non-yes answer.
- (f) Please explain whether any of your postage curves recognize additional costs to the mailer (sometimes called user costs) of preparing the mail to take advantage of worksharing discounts and other changes in rate structure.

RESPONSE:

- (a) Volumes for the publications in question were held constant for each year analyzed, using the current parameters as a base and making adjustments for prior year rate structures as explained in response to subpart (b) below.

(b) The current mailing characteristics for each publication were used as a base, in conjunction with an average weight and advertising percentage. The parameters were then used to determine total postage in prior years using the rates that were in effect at the time. The following assumptions were made:

- Delivery unit and SCF rates started on February 3, 1991. For prior period analysis, any copies currently under those rates are accounted for in zone 1 & 2.
- ADC rate started on June 30, 2002. For prior period analysis, any copies currently under that rate are accounted for in zone 1 & 2.
- Automation discounts started on September 20, 1992. For prior period analysis, any copies currently in the automation category are put into the non-automation category.
- Presort level 3/5 was split into separate sorts for 3-digit and 5-digit on January 10, 1999. For prior period analysis, copies in 5-digit are all moved to 3/5 digit, and copies in 3-digit are moved one-half to 3/5 digit and one-half to Basic.

(c) I am not an economist and thus am unable to address these questions meaningfully.

(d) I am not an economist and thus am unable to address this question meaningfully.

(e) I am not an economist and thus am unable to address this question meaningfully.

(f) User costs are not reflected.

Response of Witness Schaefer to TW et al./MH – T1 – 4

TW et al./MH-T1-4. Please refer to Chart A on page 8 of your testimony. Do you agree that the index for Engineering News Record (ENR), which you characterize on line 3 as “a small-circulation magazine,” tracks closely the index for all Periodicals? Explain any non-yes answer.

RESPONSE:

The index for *ENR* (which I characterize at page 8, line 3 of my testimony as a “smaller-circulation magazine”) appears generally to track or exceed the index for all Periodicals

Response of Witness Schaefer to TW et al./MH – T1 – 5

TW et al./MH-T1-5. Please refer to your statement on page 9, line 7: “It is hard to believe in this light that, as stated by witness Mitchell, the current rates provide signals that are ‘hidden by excessive tempering.’”

- (a) Please explain what it is about the index for Engineering News Record approximating the average for Periodicals and the index for Business Week being between the CPIU and the average for Periodicals that makes it difficult for you to believe that the current rates might hide (or not provide) signals relating to postal costs.
- (b) Suppose under the current rates a mailer made a decision that it would be somewhat easier for the production people to put six bundles in two sacks instead of one sack, and the postage did not change. Please explain the sense in which any of the curves you show make it “hard to believe” that the increase in postal costs associated with the shift to two sacks is “hidden” from the mailer making the decision to change.

RESPONSE:

(a) As explained in the remainder of the referenced paragraph, larger-circulation Periodicals tend to respond to existing price signals in order to lower their postal costs.

(b) The quoted statement refers to existing price signals under current postal rates, including pallet and drop-ship discounts that discourage use of sacks. Periodicals mailers also receive price signals from printers and transporters that discourage use of sacks, as I discuss on pages 14-15 of my testimony. I have not suggested that current postal rates do or should reflect all postal cost differences, whether associated with sack usage or otherwise.

Response of Witness Schaefer to TW et al./MH – T1 – 6

TW et al./MH-T1-6. Please refer to page 11, lines 15-16, where you argue that the “smaller-circulation publications” have “borne the brunt” of the excessive increase in the costs of Periodicals.

- (a) Suppose the inflation in all Periodicals costs over the period shown in your charts had been 20 percentage points lower than it actually was. Do you accept that under these conditions the level of each Periodicals rate cell would likely be 20 percentage points lower at the end of the period than it actually was and that, *ceteris paribus*, the postage paid by each and every Periodicals title would likely be 20 percentage points lower at the end of the period than it actually was. If you do not accept this outcome of the supposition, please explain in detail every rate design and costing reason for your non-acceptance and describe the outcome that you feel would be more likely.
- (b) If all Periodical titles would share in a general cost *reduction*, as suggested in the previous part of this question, please explain the rationale and the basis for arguing that the smaller publications have “borne the brunt” of the general cost *increase* that actually occurred.
- (c) Please explain the basis for your statement at page 11, lines 16-18, that the Complainants have “seize[d] upon” the excessive cost increases “as a reason to further increase the cost burden borne by smaller-circulation publications.”
- (d) When witness Mitchell said on page 3 of his testimony, line 3, that “[t]he fact that [these excessive cost increases have] been occurring makes it all the more important to search for other avenues of progress, on which this Complaint focuses,” did you take this to mean that he had searched for ways to place burdens on small-circulation publications?
- (e) In the Rate Design section that begins on p. 26 of Mitchell’s testimony, do you find any decision that:
 - (1) is not based on well established, balanced, and explained rate design principles?
 - (2) is biased with the intent to affect in a negative way a particular mailer group? or
 - (3) is justified on the basis of the size of recent cost increases?

Please explain “yes” answers to any of these questions.

RESPONSE:

(a) I am not a rate design expert and thus am unable to confirm or elaborate.

(b) Larger publications are better able to mitigate rate increases through worksharing.

(c) See my direct testimony at page 7, lines 10-15.

(d) I did not rely on the quoted sentence for the conclusion that you suggest, nor do I otherwise know what was in the mind of witness Mitchell.

(e) (1) My comments on the proposed rate design appear at pages 24 through 37 of my direct testimony. My silence regarding any particular aspect of the proposed rate design should not be construed as any endorsement. I do not purport to be a rate design expert. (2) I do not purport to know the intent of witness Mitchell. (3) See my answer to subpart (c) above.

Response of Witness Schaefer to TW et al./MH – T1 – 7

TW et al./MH-T1-7. Engineering News Record appears to be an excellent candidate for co-mailing. Why is this title not co-mailed?

RESPONSE:

Engineering News Record is a weekly publication. Weeklies do not generally make good candidates for co-mailing, as witness Schick acknowledged (Tr. 2/388, 414, 425, 543-44).

The printer of *Engineering News Record*, Perry Judd, does not currently offer co-mailing of publications. *ENR* is under contract with Perry-Judd and does not have the liberty of changing printing locations.

McGraw-Hill has explored co-mailing with some of our printers that do have such capability, but as noted in my direct testimony, these printers have been unwilling to accept into their co-mailing pools publications printed elsewhere.

McGraw-Hill would certainly be willing to co-mail its publications to the extent that equipment is available making it feasible to do so, provided that savings can be realized and that delivery of the publication is not adversely affected.

Response of Witness Schaefer to TW et al./MH – T1 – 8

TW et al./MH-T1-8. On page 21 you discuss the difficulties of palletizing airfreight copies. Does your airfreight forwarder offer the service of re-palletizing copies at the destination city, so that they can be entered into the Postal Service as palletized copies? If your response is no, please explain fully.

RESPONSE:

While our forwarder does offer a re-palletization service, the service is not available at all destinations. McGraw-Hill has evaluated this service in the past and made some limited use of it approximately four years ago. In general, adding process steps to the supply chain, as would occur by palletizing mail, breaking it down into a number of boxes for air shipment, and then re-palletizing it at the destination city, introduces a number of potential failure points. Forwarders' expertise lies in moving freight, not mail preparation. We do not feel that it is generally prudent to move this task to the forwarder given that it is not a core competency of the forwarder.

Response of Witness Schaefer to TW et al./MH – T1 – 9

TW et al./MH-T1-9. How does Business Week prepare and enter its backdate copies and any supplemental mailings? Could these copies be co-mailed? If your response is no, please explain fully.

RESPONSE:

Business Week does not issue backdated copies or supplemental mailings.

Response of Witness Schaefer to TW et al./MH – T1 – 10

TW et al./MH-T1-10. On page 4 of your testimony, you refer to “the three loyal subscribers to Dodge Daily Bulletin Western Missouri.”

- a. What is the annual subscription rate for this publication to these three subscribers? Are the subscription rates equal for all editions of this publication?
- b. Have you ever considered faxing Dodge Daily Bulletin Western Missouri to its three loyal subscribers? If your response is no, please explain fully.
- c. Have you ever considered e-mailing Dodge Daily Bulletin Western Missouri to its three loyal subscribers? If your response is no, please explain fully.

RESPONSE:

- a. \$3,612. There is only one edition.
- b. While faxing has been considered, the publication has found it to be impractical from an operational standpoint.
- c. While electronic access is available, these subscribers elect hard-copy delivery.

Response of Witness Schaefer to TW et al./MH – T1 - 12

TW et al./MH-T1-12: Please refer to page 6, ll. 18-20, where you state: "Due largely to their lower circulation, smaller publications already bear a substantially higher cost burden than larger-circulation publications, and would not likely be able to avoid onerous rate increases by changing their mailing practices."

Please confirm that the primary reason that "lower circulation, smaller publications already bear a substantially higher cost burden than larger-circulation publications" is that they have substantially higher costs. If not confirmed, please explain.

RESPONSE:

Confirmed on the basis of my testimony at page 9 line 7-16.

Response of Witness Schaefer to TW et al./MH – T1 - 13

TW et al./MH-T1-13: Please refer to page 7, ll. 1-4, where you state: "We further believe that more efficient mailing practices can be fostered and rewarded as appropriate through rate design changes that are more balanced and equitable than those proposed by Complainants."

- a. Please confirm that by "changes that are . . . equitable" you mean changes that recognize in rates less than the full cost savings realized by the Postal Service due to "the more efficient mailing practices" in question and that distribute a portion of those savings to mailers who do not engage in those "more efficient mailing practices." If not confirmed, please explain.
- b. Please confirm that by "rewarded as appropriate" you mean to *exclude* rewards in the form of rate changes that recognize prospective Postal Service cost savings resulting from the continuation by mailers of "more efficient mailing practices" in which they are already engaging. If not confirmed, please explain.

RESPONSE:

- a. Not confirmed. When I referred in my testimony to "rate design changes that are more balanced and equitable," I particularly had in mind changes that would not have such an adverse impact on smaller-circulation publications that are unable to engage in more efficient mailing practices. See page 6, line 15 through page 7, line 4 of my testimony. I elaborated on the adverse impact and other equitable considerations in parts IV and V of my testimony, and I discussed more balanced and equitable rate design changes, on a general level, in part VI of my testimony. In the passage from my testimony that you quote, I was not focusing narrowly on the type of rate effects that you describe, although I don't think they are necessarily inconsistent with more balanced and equitable rate design changes..
- b. Not confirmed. See my testimony at page 26 line 9 through page 27 line 4.

Response of Witness Schaefer to TW et al./MH – T1 - 14

TW et al./MH-T1-14: Please refer to page 7, ll. 12-14, where you state:
 "Complainants' proposal in this proceeding to de-average Periodicals costs and rates . . . would result in enormous savings to Complainants (without any change in their mailing practices, or any cost savings to the Postal Service). . . ."

- a. Please confirm that complainants' posposals [sic] are based on differences in Postal Service costs associated with differences in mailing practices. If not confirmed, please explain.
- b. Please confirm that the "enormous savings" to which you refer are predicated on mailing practices of the complainants, adopted by them subsequent to 1970.
- c. If your answer to part b is other than "confirmed," please state your understanding of the extent to which, as of 1970, complainants' Periodicals publications were:
 - (1) entered into the mail on pallets rather than in sacks;
 - (2) presorted to carrier route or 5-digit;
 - (3) dropshipped to destination postal facilities.
- d. Please confirm that your statement at p. 7, ll. 12-14 would have been more accurate if you had said: Complainants' proposal in this proceeding to de-average Periodicals costs and rates . . . would result in enormous savings to Complainants (without any *additional* change in their mailing practices, or any *additional* cost savings to the Postal Service).

RESPONSE:

- a. Not confirmed. I am not a postal cost expert. I do acknowledge that Complainants' proposals *purport* to be based on differences in Postal Service costs associated with different mailing practices.
- b. Not confirmed. I am not familiar with Complainants' mailing practices over time. My statement regarding the potentially enormous savings to Complainants was predicated upon application of current and proposed Periodicals rates to the current mailing profiles of Complainants' publications, as reported by Complainants in response to discovery requests in this proceeding. See page 11 note 4 of my testimony.

- c. I have no knowledge of the mailing practices of Complainants' publications as of 1970.
- d. Not confirmed. The savings that I refer to require no change in the mailing practices of Complainants' publications.

Response of Witness Schaefer to TW et al./MH – T1 - 15

TW et al./MH-T1-15: Please refer to your testimony at p. 15, ll. 12-20, where you state: "Late last August both Brown Printing and Fairrington Transportation announced plans to commence co-palletization programs and associated drop-ship pools by early next year. Further, Quebecor World announced in early August that it would invest in co-mailing technology to be housed in a new facility in Chicago. . . . I note that these developments are occurring under current postal rate incentives, and thus further call into question the need for the type of rate structure proposed by Complainants."

- a. Is it your understanding that the decisions by printers to initiate the programs to which you refer are based exclusively or primarily on "current postal rate incentives," as opposed to expectations regarding future rate changes that move in the direction of "the type of rate structure proposed by Complainants"?
- b. If your answer to part a was yes, please state fully the basis for your understanding. In particular, please state:
 - (1) whether you have heard the opinion expressed by individuals knowledgeable about postal affairs that the Postal Service desires to force Periodicals mailers out of sacks altogether and is likely to include in its next rate filing more fully cost-based Periodicals rates with substantial increases for sacked mail;
 - (2) if you have heard such an opinion expressed, the basis on which you believe that a similar opinion has not played a substantial role in the decisions of printers to initiate the programs to which you refer.

RESPONSE:

- a. That is an inference that I draw from the press releases attached to my direct testimony, which refer to existing discounts and other current advantages of co-palletization or co-mailing.
- b. I have no knowledge of the basis of the decisions by printers other than the press releases attached to my direct testimony. While I have heard from knowledgeable persons that the Postal Service was considering forming an MTAC

workgroup to address elimination of sacks (see my direct testimony at page 13, lines 15-17), and that it is considering higher sack charges, I have no knowledge whether such possibilities have come to the attention of the printers or influenced their decision-making.

MH-T-1

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

2004 NOV -4 A 11: 27

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

COMPLAINT OF TIME WARNER INC. et al.
CONCERNING PERIODICALS RATES

Docket No. C2004-1

DIRECT TESTIMONY OF
DAVID SCHAEFER
ON BEHALF OF
THE MCGRAW-HILL COMPANIES, INC.

September 9, 2004

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**DIRECT TESTIMONY OF DAVID SCHAEFER
ON BEHALF OF THE MCGRAW-HILL COMPANIES, INC.**

I. Autobiographical Sketch

My name is David W. Schaefer. I am the General Manager, Logistics and Postal Affairs, for The McGraw-Hill Companies, a position that I have held since July 1998. In this position I am responsible for a team of twelve domestic and international employees and oversee the worldwide logistics operations for McGraw-Hill's publications. I negotiate a variety of corporate-wide global transportation contracts for the company, including express couriers and international mail services. I serve as the primary liaison for McGraw-Hill to the United States Postal Service and represent the company on the Periodical Operations Advisory Committee (POAC) and the Periodicals Advisory Group (PAG). I also serve as a member of the Mailers Technical Advisory Committee (MTAC) representing the interests of American Business Media, of which McGraw-Hill is a member. Prior to joining The McGraw-Hill Companies, I was employed by Primedia where I served as Associate Circulation Director, Distribution. During various periods of my five-year tenure at Primedia, I had responsibility for distribution, customer service and fulfillment for Primedia's consumer magazine division. I began my career as a Field Auditor for the Audit Bureau of Circulations in 1991. I received a Bachelor of Arts Degree in Economics from the State University of New York, Stony Brook in 1990.

II. Overview of Testimony

Part III of my testimony discusses the impact that the rates proposed by Complainants would have upon Periodicals published by McGraw-Hill, and outlines the

1 company's basic position in this proceeding. Under the proposed rates, McGraw-Hill
would likely save some \$300,000 overall on an annual basis, due largely to its high-
3 circulation publication *Business Week*, although all but three of McGraw-Hill's eighty-
4 four Periodicals would incur substantial rate increases. McGraw-Hill is less concerned
5 with its overall savings than with the adverse impact of the proposed rates on smaller
6 publications, and maintenance of a broad, vibrant and diverse Periodicals class as a
7 whole. McGraw-Hill believes that efficient mail practices can and should be fostered in
8 ways that are more balanced and equitable than the rate structure proposed by
9 Complainants.

10 Part IV of my testimony demonstrates that smaller publications have in fact borne
11 the brunt of the inordinate cost increases attributed to Periodicals over the years. It
appears that smaller Periodicals have incurred aggregate postage increases nearly
13 double the rate of inflation, while the postage paid by larger Periodicals such as those of
14 Complainants, and *Business Week*, has not generally exceeded the rate of inflation and
15 actually declined between 1995 and 1999. Thus, the remedy that Complainants now
16 propose for the above-inflation cost increases – a radical de-averaging of Periodicals
17 costs and rates – seems fundamentally misdirected. It would provide a relatively few
18 large publications with an enormous windfall (with no change in their mailing practices)
19 while exposing thousands of smaller publication to correspondingly large rate increases
20 – on top of the above-inflation cost increases borne primarily by smaller mailers already.

21 Part V of my testimony focuses in part on the incentives that already exist to
22 prepare Periodicals mail on pallets rather than in sacks, including reduced production
and distribution costs and expanding co-palletization and co-mailing opportunities,

1 among others. However, I also focus in part V on the practical constraints that limit or
preclude the ability of many publications to reduce their dependence on sacks, whether
3 through co-palletization or co-mailing or otherwise. I further demonstrate that in view of
4 the fees charged to publishers by printers to participate in co-palletization or co-mailing
5 programs, those programs would not likely enable many participating publications to
6 avoid substantial cost increases under Complainants proposed rates. I also explain
7 why the proposed rate structure would be unmanageably complex for most Periodicals
8 mailers.

9 Part VI of my testimony urges the Commission to adhere to its longstanding
10 basic policies that are seemingly at odds with the precipitous de-averaging of
11 Periodicals costs and rates advocated by Complainants. McGraw-Hill believes that
providing appropriate discounts from rates that are based on averaged costs is a far
13 wiser approach that balances efficiency considerations with the fundamental purpose of
14 the Periodicals class – to promote the widespread dissemination of diverse editorial
15 content through preferential postal rates in view of its “educational, cultural, scientific
16 and informational” (“ECSI”) value and its role in binding the nation together. Cost
17 averaging is further justified in my view by our experience that higher-cost Periodicals
18 mail in sacks tends to receive less expeditious service than lower-cost Periodicals mail
19 on pallets.

20 McGraw-Hill likewise sees no reason for the Commission to abandon its
21 venerable policy of promoting widespread dissemination of diverse editorial content
22 through a low unzoned pound charge for editorial content. In our view, the vital role of
hard-copy Periodicals in binding the nation together is undiminished by the internet.

Both witness Gordon and witness Mitchell fail to appreciate the economics of the magazine publishing industry, or the purpose and role of the flat editorial pound charge to help bind the nation together by lowering the cost of mailing editorial content to distant subscribers.

III. McGraw-Hill's Interest in This Proceeding

McGraw-Hill publishes a wide range of Periodicals that in many ways mirror the characteristics of the Periodicals class as a whole. Its publications include magazines, newsletters, newspapers, and loose leaf periodicals in the fields of business, finance, healthcare, and construction.¹ McGraw-Hill publishes a total of 84 Periodicals, including 19 monthlies, 10 weeklies, 2 bi-weeklies and 53 daily bulletins.² These publications vary widely in terms of mailed circulation, and thus in their ability to use pallets and drop-ship highly presorted mail pieces.

McGraw-Hill's publications range from the nearly one million subscribers to *Business Week*, which is more than 98% palletized and mostly sorted to the carrier-route level and drop-shipped to the destination-SCF, to the three loyal subscribers to *Dodge Daily Bulletin Western Missouri*. McGraw-Hill's Periodicals likewise vary widely in terms of editorial percentage and weight, ranging from a 1-ounce, 100% editorial publication (*The Outlook*) to a 7-ounce, 40% editorial publication (*Healthcare Informatics*) to a 25-ounce, 50% editorial publication (*Architectural Record*). In view of the diversity of its publications, McGraw-Hill is a member of both American Business

¹ McGraw-Hill is also a major publisher of educational and professional books, and owns and operates four TV stations, among other information and media products and services that it provides.

² McGraw-Hill's total Periodicals postage in 2003 was approximately \$17.5 million. We estimate that postage amounts to about 26% of the cost of manufacturing and distributing our Periodicals as a whole.

1 Media and the Magazine Publishers of America, and has representatives on the boards
and key committees of both organizations.

3 McGraw-Hill is also using the new methods of electronic publishing to satisfy its
4 customers' desires for information as they wish to receive it. Many of McGraw-Hill's
5 publications provide editorial content on publically available websites, as well as on
6 websites accessible only to subscribers, or through electronic publications in formats
7 such as Adobe PDF and Zinio.

8 Shortly after the Complaint was filed in this case, McGraw-Hill undertook an
9 analysis of the potential impact on its publications of the rates proposed by
10 Complainants. Much of the analysis was prepared through application of a Microsoft
11 Access tool provided by Time Warner to our database of mail.dat files, which contain
detailed information about mailings of our larger publications. Once the analysis was
13 completed for a typical issue of each such publication, the percentage rate increase or
14 decrease was applied to each publication's 2004 budget for Periodicals postage to
15 gauge the financial impact.

16 As McGraw-Hill publishes a diverse range of publications, the impact analysis
17 yielded a wide range of results. Our largest title, *Business Week*, would realize savings
18 of approximately 11%, or \$1.175 million on an annual basis. On the other hand, *Platt's*
19 *Energy Business and Technology*, which has since ceased operation, would have
20 experienced a 28.2% rate increase. The largest increase from a dollar perspective
21 would fall on *Engineering News Record*, amounting to approximately \$140,000, or 13%,
22 on an annual basis.

1 Our *Dodge* and *Standard & Poor's* publications are small in circulation, and do
not generate mail.dat files. We initially assumed that these publications would incur rate
3 increases on the order of 15%, as this would be in line with the average increases for
4 our other relatively small publications. We have more recently determined, however,
5 that the impact on our *Dodge* and *Standard & Poor's* publications would likely be
6 significantly more adverse due to their lower circulation. We now estimate that they
7 would incur rate increases on the order of 50%.

8 When we first performed the impact analysis, we estimated that on a corporate-
9 wide basis, McGraw-Hill could realize savings under the proposed rates amounting to
10 close to \$800,000 annually – primarily due to *Business Week*. However, that number is
11 reduced to about \$300,000 under our current analysis of the impact of the proposed
rates on our *Dodge* and *Standard & Poor's* publications. Notwithstanding any such
13 savings, all but three of McGraw-Hill's publications would incur substantial rate
14 increases under the proposed rates, with most of the increases well into double digits.

15 From the start of this proceeding, as in the MC95-1 reclassification case,
16 McGraw-Hill has been less concerned with the savings that it might realize overall under
17 the proposed rates than with the adverse impact of such rates on smaller publications.
18 Due largely to their lower circulation, smaller publications already bear a substantially
19 higher cost burden than larger-circulation publications, and would not likely be able to
20 avoid onerous rate increases by changing their mailing practices. Beyond the adverse
21 impact on most of McGraw-Hill's own publications (which must stand on their own
22 financially), we are concerned that the extensive de-averaging of costs and rates
proposed by Complainants would undermine maintenance of a broad, vibrant and

diverse Periodicals class, and could bring into question its long-term viability. We further believe that more efficient mailing practices can be fostered and rewarded as appropriate through rate design changes that are more balanced and equitable than those proposed by Complainants.

IV. Complainants' Proposal Is Fundamentally Misdirected Because Smaller-Circulation Publications Have in Fact Borne the Brunt of the Cost Increases Upon Which Complainants Focus.

Testimony presented by witness Mitchell focuses on the inordinate rise in mail processing costs attributed to Periodicals since the late 1980's (Tr. 3/805-08) as the point of departure for Complainants' proposal in this proceeding to de-average Periodicals costs and rates, which would result in enormous savings to Complainants (without any change in their mailing practices, or any cost savings to the Postal Service) while exposing most smaller Periodicals to corresponding rate increases. Witness Mitchell illustrates in a chart that outside-county Periodicals rates, at a constant markup index (which isolates the growth of attributed costs), have grown at rate considerably in excess of inflation as measured by the CPI-U. He also notes that this took place over a time when technological advances occurred, so in effect we have experienced *negative technological productivity change*. While, as witness Mitchell states, "[b]y any measure, the situation is troubling" (*id.* at 808), I suggest that the situation has been much more "troubling" for smaller-circulation publications that lack presort density than it has for large titles.

Chart A below was taken from the testimony of witness Mitchell and modified to include some additional information. McGraw-Hill modeled postage increases for the same period of time for several of its publications, including *Business Week*, a relatively

high-circulation magazine (with nearly a million domestic mailed copies per issue) that is highly presorted, heavily palletized and extensively dropshipped, and *Engineering News Record*, a smaller-circulation magazine (approximately 74,000 domestic mailed copies per issue) that is less finely presorted, less extensively palletized, and origin-entered. Using their current mailing profiles, I estimated their increased postage for the period in question (holding constant a 24% markup, as did witness Mitchell, to highlight growth of attributable costs), with adjustments being made for changes in the rate structure over the period.

Chart A

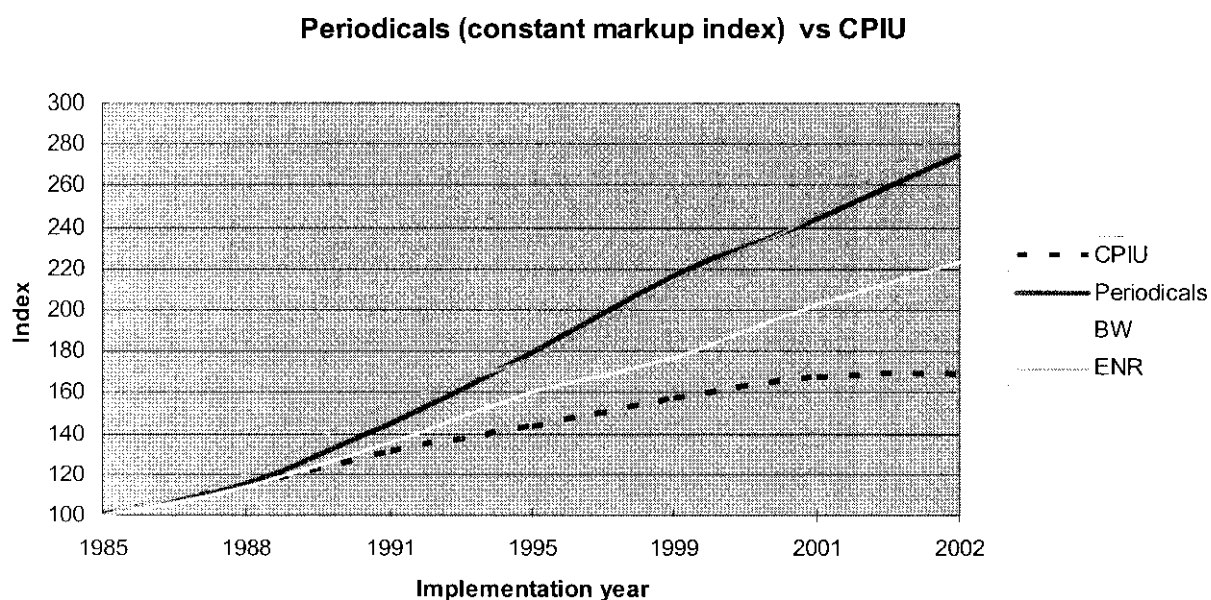


Chart A makes clear that the constant-markup rates for *Engineering News Record* exceed the CPI-U by approximately twice as much as do the corresponding rates for *Business Week*. This indicates that smaller-circulation publications like *ENR*, rather than large-circulation publications like those of Complainants, have borne the brunt of the costs attributed to Periodicals since 1985. Moreover, the rate differential

1 continues to grow at an alarming rate. Even more troubling, borrowing a phrase from
witness Mitchell, the actual situation could become worse than the picture. The rate
3 differential would widen significantly under the proposed rate structure, with *Business*
4 *Week* experiencing an 11% decrease in rates and *Engineering News Record* a 13%
5 increase. Even if *ENR* were able to take steps to mitigate some of the increase, as the
6 Complainants suggest, the rate disparity would still grow considerably.

7 It is hard to believe in this light that, as stated by witness Mitchell, the current
8 rates provide signals that are "hidden by excessive tempering." (Tr. 3/852). During the
9 time period analyzed, numerous rate design changes have been introduced that
10 primarily benefit high-volume/high-density mailers rather than relatively low-volume/low-
11 density mailers. These changes have included the introduction of destination-entry
pound rates, destination-entry discounts from the piece rates, a slower rate of increase
13 in low-zone pound rates, enlarged carrier route discounts, and the introduction of pallet
14 discounts, to name a few. Large-circulation Periodicals mailers, including
15 Complainants, have benefited from such rate design elements in minimizing the share
16 of Periodicals costs borne by them.

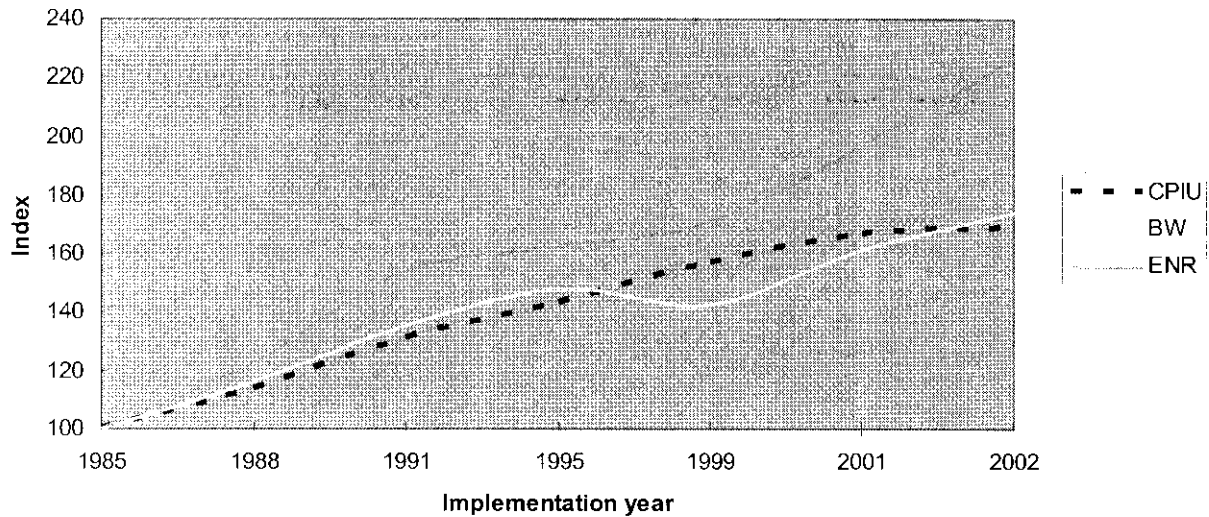
17 It is also instructive to compare the actual postage paid by relatively large and
18 small Periodicals mailers over the years. Chart B below is similar to Chart A except that
19 it reflects actual markups and postage paid. Chart C below is similar to Chart B except
20 that it includes all McGraw-Hill publications except its *Dodge* publications and *Standard*
21 & *Poor's* publications.

22

1

Chart B

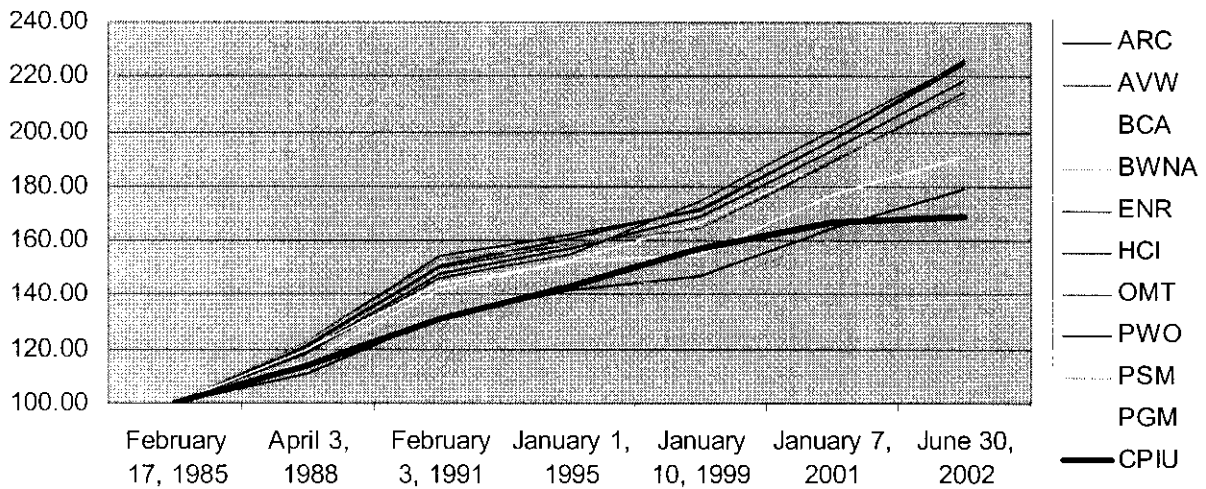
Periodicals (actual markup) vs CPIU



2

3

Chart C



5

6

Notably, while the average increase for regular-rate Periodicals during the period between January 1995 and January 1999 was 5%, many large publications apparently

8

saw a *decrease* in postage during this period, as was the case with *Business Week*.

Further, by putting aside the artificial “constant 24% markup” adopted in witness Mitchell’s chart, Chart B above makes clear that the actual aggregate postage increases incurred since 1985 by *Business Week* – and presumably other high-circulation publications like those of Complainants – have *not* generally exceeded the CPI-U, while smaller-circulation publications like *ENR* have incurred aggregate postage increases nearly *double* the CPI-U. Indeed, the increase for at least some of Complainants’ publications appears to be well *below* the rate of inflation, and under the proposed rates, their postage will have *decreased* over the past decade.³

In this light, the remedy advocated by Complainants – a radical de-averaging of Periodicals rates that would provide an enormous windfall to a relatively few large-circulation publications such as those of Complainants,⁴ even with no change in their mailing practices, while exposing most smaller-circulation publications to corresponding rate increases – seems wholly misaligned with the chronic problem of above-inflation cost increases attributed to Periodicals mail that Complainants purport to address. It is the smaller-circulation publications, not the large-circulation publications, that have borne the brunt of those cost allocations. It therefore seems misplaced for Complainants to seize upon those cost allocations as a reason to further increase the cost burden borne by smaller-circulation publications.

³ For example, Time Warner publications *Time* and *Sports Illustrated* respectively paid postage per piece of 15.6 cents and 16.8 cents in 1995 (MC95-1, Tr. 29/13508), and currently pay 17.67 cents and 18.73 cents per piece, respectively. (Tr. 1/116). These increases, 13.3% and 11.5% respectively, are well below the aggregate rate of inflation for the period, which has amounted to approximately 23%. Moreover, under the proposed rates, *Time* and *Sports Illustrated* would respectively pay 15.3 cents and 15.4 cents per piece (*id.*) – lower postage than they paid in 1995.

⁴ Based on data in the record (Tr. 1/72-75, 112-126), it appears that under the proposed rates, aggregate annual postage savings would amount to approximately \$23.9 million for Time Warner publications, \$13.6 million for *TV Guide*, \$10.7 million for Conde Nast publications, \$6.7 million for *Reader’s Digest* publications, and \$4.4 million for *News Week*.

1 To the contrary, it would seem in this light that the inordinate cost increases
attributed to Periodicals over the years is a reason *not* to de-average Periodicals rates,
3 or at least to proceed cautiously and incrementally in that regard. This is particularly so
4 to the extent that those cost increases may have been to a significant degree
5 *misallocated* to the Periodicals class – a possibility that has been acknowledged by
6 witness Mitchell in this proceeding (Tr. 3/1027, 1029-1031) and, I am informed, has
7 most strenuously been urged in the past by Time Warner.

8 Considering that possibility, as well as all of the rate design changes that have
9 occurred over the years, fostering increased worksharing (presortation, barcoding, and
10 drop-shipping) and palletization, I question whether the high cost increases attributed to
11 Periodicals as a whole are due primarily to inadequate price signals to Periodicals
mailers to modify their behavior. It seems at least as plausible that many smaller
13 publications simply lacked the circulation density (or practical opportunities to combine
14 their mail with that of other publications) in order to increase significantly their
15 worksharing and palletization.

16 At the very least, however, the sharp cost increases attributed to Periodicals mail
17 over the last twenty years despite a range of new rate incentives does indicate that
18 considerable caution is warranted before undertaking the radical rate design changes
19 proposed by Complainants. Prudence would seem to dictate a more incremental
20 approach.

21 The Postal Service, in its Answer to the Complaint filed in this proceeding, has
22 stated (at 21-23) that it is taking measured steps to foster a more efficient mail stream in
a manner designed to achieve consensus among the Periodicals class as a whole.

1 These steps include, for example, establishing experimental co-palletization discounts
in order to determine whether smaller Periodicals are in fact able to change their mailing
3 practices in meaningful ways. Proceeding cautiously in this regard will have at least two
4 major benefits. An incremental approach would lessen the otherwise harsh impact of
5 precipitous rate increases on many mailers that may not presently have the ability to
6 change their mailing practices significantly, and will allow those that can change, along
7 with their printers, the time to do so. Further, it will allow the Postal Service to evaluate
8 the feasibility of such changes and their effect on the efficiency of its operations.

9 It is critical to understand fully how rate design changes impact both mailers and
10 the efficiency of the mailstream. The rate de-averaging proposed by Complainants
11 could well lead to *inefficient* mail preparation practices, such as the movement of small
pallet volume to large sacks, with larger bundles prone to breakage. While witness
13 Mitchell states that “the use of sacks can in some circumstances be a low-cost, efficient
14 way of preparing and handling the mail” (Tr. 3/1011), this seems at odds with the
15 current thinking of the Postal Service. As recently as May of this year, Anita Bizzotto,
16 Chief Marketing Officer for the Postal Service, stated that a MTAC workgroup was being
17 considered to eliminate the use of sacks altogether.

18 The Commission should look to the Postal Service to take the lead if any major
19 rate design changes for Periodicals mail are to be considered fully. If some of
20 Complainants’ assumptions in this proceeding were not borne out, the unintended and
21 counter-productive consequences of adopting their proposal could be considerable.
22 Too many publishers have too much at stake to take such a gamble.

1 **V. A Precipitous De-Averaging of Rates Is Unnecessary for Large Periodicals**
2 **and Would Be Unmanageable and Harmful for Many Smaller Periodicals.**

McGraw-Hill publishes a wide range of Periodicals, as discussed at the outset of
5 this testimony, and we know first hand the issues facing many types of publications.
6 McGraw-Hill actively pursues worksharing and palletization for each of its publications
7 to the extent feasible. Some publications, however, face considerable practical
8 obstacles in this regard. Simply raising the cost of postage for those titles that cannot
9 palletize and dropship will not cause the activity to take place.

10
11 **A. Periodicals Mailers Already Have an Array of**
12 **Effective Efficiency Incentives.**
13

14 Mailers already have significant incentives to prepare Periodicals mail on pallets,
15 rather than in sacks, to the extent feasible. These incentives extend well beyond the
many pallet and drop-ship discounts under the current Periodicals rate structure. Sacks
17 are expensive not only for the Postal Service but also for everyone else involved in the
18 process. In a printing plant it is much more labor intensive to sack Periodicals mail than
19 to palletize it. Sacks are also less efficient and more expensive than pallets for
20 transporting (drop-shipping) Periodicals mail in non-postal trailer trucks. If *Business*
21 *Week* were to direct its printers to prepare its print run largely in sacks, it would incur
22 significant additional printing and drop-shipping expenses.

23 Accordingly, McGraw-Hill and its printers have increased significantly their use of
24 pallets and reduced significantly their use of sacks for most of its publications. *Business*
25 *Week* and *Aviation Week* alone have eliminated over 1,000,000 sacks on an annual
basis over the course of the last four years. Complainants have likewise heeded the
27 existing incentives to palletize rather than sack their Periodicals mail to the extent

feasible. (See Tr. 1/116-120, 122-23, 125-26). Many McGraw-Hill publications have sack minimums set high at 24 pieces and pallet minimums set low at 250 pounds, which tends to minimize the number of sacks and maximize the number of pallets used. Apart from reducing our postage bill, these practices have also helped us to avoid incremental expenses from the printer and to lower non-postal transportation costs.

In undertaking to reduce sack usage in favor of pallets, McGraw-Hill engages in co-palletization and co-mailing to the extent feasible. A number of our *Dodge* regional publications are produced at Publishers Press and participate in its co-palletization program. As a result, the vast majority of these short-run publications are nearly completely palletized. We have also co-mailed publications through the use of selective binding technology, resulting in both larger bundles and finer presortation.⁵

Late last August both Brown Printing and Fairrington Transportation announced plans to commence co-palletization programs and associated drop-ship pools by early next year. Further, Quebecor World announced in early August that it would invest in co-mailing technology to be housed in a new facility in Chicago.⁶ While full details are not yet available to us, we view these announcements as positive steps in creating additional opportunities for Periodicals mailers to save postage through greater presort density, palletization and drop-shipping. I note that these developments are occurring under current postal rate incentives, and thus further call into question the need for the type of rate structure proposed by Complainants.⁷

⁵ McGraw-Hill also makes use of drop-ship pools, most notably for *Architectural Record*. It is noteworthy that *Architectural Record* is drop-shipped by a different printer than the one that prints the publication – a situation that we have been unable to duplicate for co-mailing or co-palletization.

⁶ The respective press releases of Brown, Fairrington and Quebecor in this regard are compiled in attachment A to this testimony.

I further note that these developments in and of themselves will not make co-palletization or co-mailing available in the near future to all or most Periodicals that could benefit from such programs, or to all or most Periodicals that would need to do so in order to mitigate large postal rate increases under Complainants' proposed rate structure. That may not occur until nearly all printers offer co-mailing or co-palletization to their Periodicals customers. Moreover, in the case of many publications there are a number of practical constraints that limit or preclude the publication's ability to reduce its dependence on sacks, whether through co-mailing or co-palletization or otherwise.

B. There Are Many Reasons Why Many Publications May Not Be Able to Respond Effectively to the Price Signals Advocated by Complainants.

1. *Co-Mailing and Co-Palletization Costs Absorb Much of the Postage Saved by Co-Mailing.*

To the extent that co-mailing or co-palletization may be an option for some publications (although for many publications they are not, as discussed in parts 2 – 4 below), the Commission should consider the added costs incurred by publications as an integral part of the potential impact of the proposed rate structure on smaller publications. In McGraw-Hill's experience, those printers that do offer such services typically charge as their co-mailing or co-palletization fee at least one-half of the postage saved by each participating publication. Witness Schick confirmed that this would be a reasonable approximation. (Tr. 2/560).⁸ When the cost to publishers of co-

⁷ Witness Schick testified that co-mailing enabled even those Periodicals with editorial percentages as high as 85% or more to drop-ship economically under current postal rates. (Tr. 435-36, 531-35). The charge for cross-country transportation in a drop-ship pool is about 6.5 cents per pound.

⁸ The printers' practice of charging co-mailing and co-palletization fees based on the amount of postage saved seems rather unique in that the fees can vary widely based on factors that have little to do with the actual co-mailing costs. This may explain why a printer would favor a rate structure that de-averages

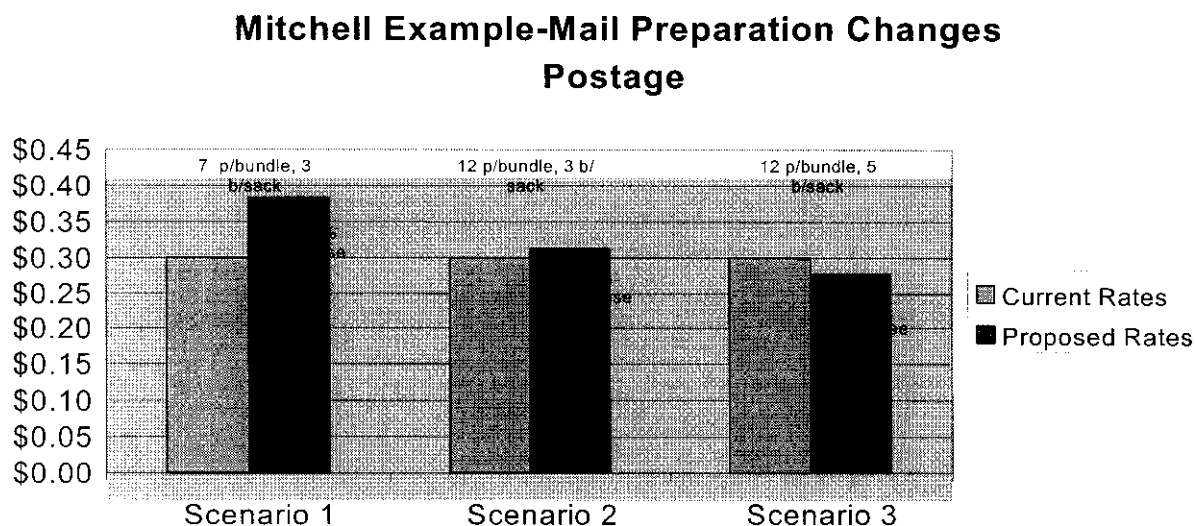
mailing or co-palletization is considered, it becomes clear that substantial rate increases for many smaller publications could not likely be avoided under the proposed rate structure.

Consider the response of witness Mitchell to ABM/TW et al.-T1-93, which in part asked him to explain his claim that the adverse impact of the proposed rate structure would be "limited." Witness Mitchell presented the following example:

[S]elect zone 5 as being representative of non-dropshipped publications. Further, assume 10 percent advertising, in sacks, machinable, barcoded, ADC presort, in an ADC container, origin-office entry, 3 ounces, 7 pieces per bundle, and 3 bundles per sack. The pieces in this situation receive an increase of 28.36 percent. If the number of pieces per bundle is changed to 12, the increase becomes 4.74 percent, and if a further change is made to 5 bundles per sack, the increase becomes negative, the postage declining 7.37 percent. I found the number of pieces per bundle and the number of bundles per sack to be quite important.

Chart D below represents the information as originally presented by witness Mitchell:

Chart D



costs and widens rate differentials. The wider the rate differentials are, the greater the potential postage savings from co-mailing, and the greater the potential profits to the printer from co-mailing.

1 The problem with the example is that witness Mitchell fails to explain how this
 2 hypothetical publication could achieve greater bundle and sack size. Given the
 3 relatively light weight (3 ounces), high editorial percentage (90%) and lack of
 4 worksharing (ADC presort, origin-entered) specified for the publication, it seems likely
 5 that it would have a relatively low circulation density, which would account for its
 6 relatively few pieces per bundle and few bundles per sack.⁹ Assuming that co-mailing
 7 would therefore be necessary to achieve the savings, the picture becomes far less
 8 encouraging.

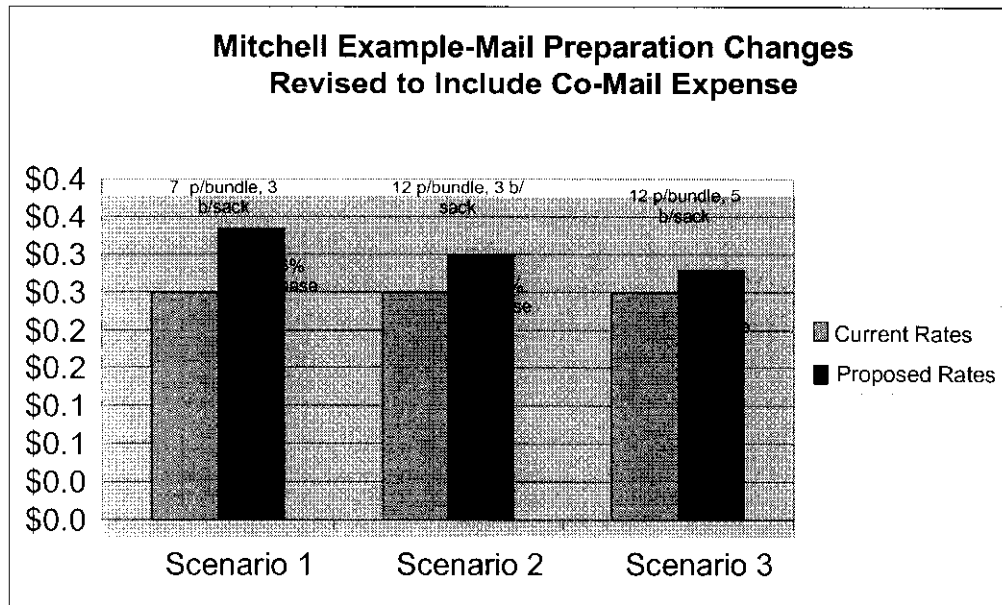
9 Chart E below is based on the same data used by witness Mitchell, but assumes
 10 that half the postage savings achieved would revert to a printer as a co-mailing fee. As
 11 in witness Mitchell's example, the initial scenario is that current postage of \$0.2983 per
 12 piece would increase by 28.36% under the proposed rates to \$0.3828 per piece.
 13 However, while changing the mail parameters under scenario 2 in witness Mitchell's
 14 example supposedly leads to a rate increase of only 4.74% (\$0.3124 per piece), it
 15 actually leads to a rate increase of 16.5% (\$0.3476 per piece) when the cost of co-
 16 mailing is considered.¹⁰ Similarly, while further changing the mail parameters under
 17 scenario 3 in witness Mitchell's example supposedly leads to a 7.37% rate *decrease*
 18 (\$0.2763 per piece), it actually leads to a rate *increase* of 10.5% (\$0.3296 per piece)
 19 when the cost of co-mailing is considered.

⁹ Witness Mitchell presented data that Periodicals with 90-100% editorial content have an average weight of 4.64 ounces and an average circulation of 80,553. (Tr. 3/1041).

¹⁰ The difference between \$0.3828 and \$0.3124 is \$0.074, half of which is \$0.0352. Adding this amount to the reduced postage yields a per piece cost of \$0.3476, an increase of 16.5% over the current rates – nearly 12% more than was stated by witness Mitchell.

1

Chart E



3

I note that even under witness Mitchell's most optimistic scenario, the proposed rates would increase the total cost per piece for his hypothetical publication to a level 10% above the postage that would be charged for such publication under *Standard* rates (\$0.30 per piece) when the cost of co-mailing is considered. Thus, even to the extent that smaller mailers might be able to participate in co-mailing or co-palletization, they would not apparently be able to avoid a substantial rate increase under Complainants' proposed rate structure.

11

12

2. *Limited Opportunity for Co-mailing Or Co-Palletization Generally*

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14

15

McGraw-Hill typically enters into printing contracts for its magazines that run from three to five years. If a printer we use today does not offer co-mailing or co-palletization programs, we cannot simply shift our publications to an alternative printer. McGraw-Hill has engaged a number of printers for its magazines, including R.R. Donnelley, Quad

16

17

18

1 Graphics, Brown Printing, Perry-Judds and Publishers Press. Unfortunately, many of
McGraw-Hill's titles that could benefit from co-mailing or co-palletization are printed at
3 plants that do not currently offer such services, Publishers Press being a notable
4 exception.

5 In an attempt to circumvent this constraint, McGraw-Hill has approached a
6 number of our print vendors that do offer co-mailing or co-palletization programs to
7 explore whether the printers would accept into such programs McGraw-Hill publications
8 printed elsewhere. This effort has been unsuccessful to date due to technical issues
9 that arise when a printer lacks control over the entire production process, as well as the
10 unwillingness of printers to unbundle a service that may give them a competitive edge in
11 seeking printing contracts. Thus, an operation that thrives on volume and the ability to
12 build density is segmented in a way that hinders growth in co-mailing and co-
13 palletization. A greater willingness on the part of printers to accept into such programs
14 titles manufactured by another printer would clearly help to build a critical mass. To
15 date, we have not seen that type of commitment on any significant scale.

16 Putting aside the unavailability of dedicated co-mailing equipment and programs
17 at printing plants used by McGraw-Hill, we have found that our opportunity to co-mail
18 publications through the use of selective binding technology is often severely limited by
19 manufacturing constraints. Although we have the benefit of controlling the schedule for
20 both publications, the composition of each title plays a role as well. There are a limited
21 number of pockets on the binder, and running more than one publication at a time
22 requires additional use of these pockets. The publications must also be of a similar

size, as more than a 20% variation in page count creates technical problems and is therefore avoided.

3
4 **3. Production Constraints for**
5 **Time-Sensitive Publications**

6 McGraw-Hill publishes a number of time-sensitive weeklies. One example is
7 *Aviation Week*, a highly regarded source for in-depth coverage of the aerospace
8 industry. Timely delivery of *Aviation Week* is critical to its approximately 110,000
9 subscribers worldwide. In order to reach subscribers in key markets in a timely manner,
10 *Aviation Week* is shipped via airfreight to a number of domestic and international
11 locations. It is generally difficult to send palletized mail via airfreight, as there are very
12 few commercial wide-body aircraft operating outside of the trans-continental routes.
Smaller planes cannot accommodate pallets in their cargo holds. Therefore, while
14 McGraw-Hill seeks to enter *Aviation Week* on pallets, and does so to the extent possible
15 at some entry points, it has little choice but to use sacks for some entries (and sets 24
16 piece minimums for the sacks).

17 Rates such as those proposed by Complainants could not apparently affect this
18 situation. The cost of printing the copies at multiple plants in order to avoid airfreight
19 would be prohibitive and far outweigh the additional cost imposed on the sacks. While
20 the need for timely delivery of news-oriented publications may justify use of multiple
21 printing plants for very-large-circulation publications, the fixed costs of printing
22 operations make it economically impractical to print a smaller-circulation magazine like
23 *Aviation Week* at more than one plant.

1 *Business Week* is a large-circulation, time-sensitive news weekly. It is printed at
four plants domestically, located in California, Wisconsin, Virginia and Pennsylvania,
3 and two plants overseas. Although more than 90% of its volume is palletized and more
4 than half is presorted to the carrier-route level and drop-shipped to destination-SCFs,
5 we have looked for opportunities to co-palletize or co-mail *Business Week*. However,
6 the delay that such processes would impose on the production schedule for *Business*
7 *Week* generally prevents us from choosing such an option.

8 Manufacturing and shipping *Business Week* in the shortest possible time frame is
9 essential in order to deliver the magazine to its readership in a timely manner, and
10 allows us to implement alternate plans in the event of an uncontrollable situation, such
11 as weather. Typically, the last pages of *Business Week* are transmitted to the printer at
11:15 p.m. on a Wednesday evening. Forms are delivered off the press ninety minutes
13 later and copies of the magazine are being bound by 2:00 a.m. Most weeks, depending
14 on the characteristics of the publication, the manufacturing process is complete and all
15 copies are shipped by 12:00 p.m. on Thursday, in order to achieve timely delivery to
16 most subscribers by Saturday.

17 While on the surface a 24 to 48 hour delay to accommodate co-palletization may
18 not sound significant, it would completely disrupt our distribution plan geared toward
19 achieving delivery by Saturday. Nor would it be feasible to print *Business Week* earlier
20 in the week because news magazines must keep the editorial window open as long as
21 possible for late-breaking news stories. It is very difficult to accommodate the time
22 required for co-palletization or co-mailing in such an environment, as witness Schick
acknowledged. (Tr. 2/388, 414, 425, 543-44).

4. ***Production Constraints for Small-Circulation Publications and Loosely Bound Publications***

Periodicals published by McGraw-Hill encompass a range of circulation levels and binding methods as well as publication frequencies and weights. Each of these factors may present a unique set of challenges when considering palletization or co-mailing. For example, *The Outlook* is a sixteen-page financial newsletter published on a weekly basis by the Standard and Poor's division of McGraw-Hill, sometimes in a loose leaf format. It has a subscription base of approximately 12,500 and weighs about one ounce per issue. Given the relatively small volume and low weight involved, it would not be practical or cost-effective to enter the mail on pallets. Out of necessity, therefore, *The Outlook* is prepared in sacks with six-piece minimums. Even apart from other factors that would preclude co-mailing or co-palletization of *The Outlook*, including its time-sensitivity, printing contract, and relatively small circulation, co-mailing of loosely bound publications would be problematic.

The *Dodge Daily Bulletins* present even greater constraints in this regard. These publications provide the latest construction project information. The contents of the publication are transmitted electronically to small print centers in four locations. Each publication print run is quite small; some of these publications have as few as three subscribers. They are printed on Xerox Docu-Tech machines, which in simplistic terms are very sophisticated copiers. The 8 ½ by 11 inch sheets are staple-bound, and generally mailed at Periodicals rates. The size of these files leaves no room for varying bundle size or sack quantities (much less palletization). It would not help to mail these publications together because they each serve a different geographic region. Co-mailing is not provided in these small print shops. The service delay that would be

1 necessary in order to accommodate an outsourced co-mailing operation would be
unacceptable for a daily publication – even if a printing vendor were willing to deal with
3 such small volumes that were printed elsewhere.

4
5 **C. The Price Signals Advocated by Complainants Would Be**
6 **Unmanageably Complex for Most Periodicals Mailers.**
7

8 I have long experience with the practical aspects of optimizing mail streams of
9 Periodicals publications in terms of postage and delivery-speed as well as
10 manufacturing and distribution costs. Witness Stralberg's supposition that any
11 individual with a tenth grade math education could optimize a mail stream under the
12 proposed rates (Tr. 1/280) is an oversimplification that fails to recognize the complex
13 interrelationships that would be created by such a rate structure. The permutations
involved in such a structure would introduce an entirely new level of complexity. The
15 rates proposed by the Complainants would require significant modeling; files would
16 need to be presorted with various parameters numerous times to determine the optimal
17 balance of service and cost. Changing one set of parameters will inevitably have an
18 effect on others, both from postage and delivery-speed perspectives and from
19 manufacturing and distribution cost perspectives.

20 Software tools to perform this analysis do not exist today. Mail.dat software,
21 which is extensively used for mail planning today, would be of little value for this type of
22 optimization. A mail.dat file consists of a number of files organized in a manner similar
23 to a relational database. Each file contains information about a presorted mailing, some
24 detailing bundle characteristics, others detailing container characteristics and so forth.
The files are linked through common database elements, which allows for a variety of

analyses to be performed. The real strength, however, lies in the ability to modify the various parameters within the mail.dat file (for example, modifying entries for drop-shipment). It is not possible, however, to use a mail.dat file to vary the number of copies in a bundle – a key cost driver under the proposed rate structure. As stated on the web site of Idealliance, the developer of mail.dat software: “Any analysis of a mailing can be fully satisfied, except analysis unique to an address”. This inability to perform an analysis at the individual address level means that mail.dat software lacks the ability to optimize mail under the Complainant’s proposal.

Absent a significant amount of software development work, subscriber files would need to be analyzed under the proposed rate structure through repeated presorting under various parameters. The permutations could be endless because they are interdependent. For example, if a minimum bundle size of ten is set, it may affect how the mail is containerized, which may lead to variations in containers, which ultimately could lead to changes in entry plans. Large mailers may be able to marshal the resources and expertise needed to undertake optimization of their Periodicals mailings in this regard, but I question whether small mailers would be able to do so.

VI. The Current Policies of the Commission and the Postal Service Should Be Followed.

A. Any Valid Concerns of Complainants Should Be Addressed Through Appropriate Discounts Rather Than De-Averaging of Rates.

The radical de-averaging of Periodicals costs and rates that is proposed by Complainants in this proceeding seems akin to the proposal in MC95-1 to divide the outside-county Periodicals subclass in two. That proposal would have created a new

1 subclass for “efficient” (larger-circulation) publications that would thereby have received
large rate decreases, while the majority of other (smaller-circulation) periodicals would
3 have received corresponding large rate increases, unless they were able to co-mail.
4 While, as here, McGraw-Hill as a whole could have benefited financially under that
5 proposal, we nevertheless opposed it because of its impact on smaller-circulation
6 publications, given the practical obstacles to co-mailing, and because we believed that
7 efficient mailing practices could more appropriately be encouraged through new and/or
8 enhanced discounts that rewarded such practices.

9 The Commission agreed with McGraw-Hill’s position in MC95-1 and rejected the
10 de-averaging of Periodicals costs and rates proposed in that proceeding. Since then,
11 the Commission has approved Postal Service initiatives to create and test several new
discounts designed to encourage efficient Periodicals mailing practices. These include
13 (among others) pallet and pallet/drop-ship discounts introduced in R2001-1,
14 experimental co-palletization/drop-ship discounts per piece implemented in MC2002-3,
15 and experimental co-palletization/dropship discounts per pound adopted recently in
16 MC2004-1. None of these changes were opposed by McGraw-Hill. I note that the
17 experimental discounts have the virtue of testing assumptions regarding the feasibility
18 co-palletization, as opposed to Complainants’ “ready, fire, aim” approach (Tr. 2/442)
19 that simply assumes that all Periodicals mailers will somehow find a way to adapt if their
20 rates are precipitously de-averaged.

21 These various pallet and drop-ship discounts could be expanded if warranted.
22 An experimental co-mailing discount might also be considered – to test the extent to
which co-mailing is presently a viable option for small-circulation publications, and

whether the larger bundles generated by co-mailing would impose additional bundle-breakage costs upon the Postal Service. I am not presently in a position to evaluate the merits of any new, expanded or enhanced discounts that might be considered along these lines, much less to offer any concrete proposals. I do believe, however, that for Periodicals mail in particular, providing appropriate discounts from rates that are based on averaged costs is a far better approach than the radical de-averaging of costs and rates proposed by Complainants, as I elaborate below.

1. ***The Potential Adverse Impact of De-Averaging on Most Periodicals Would Undermine the Fundamental Purpose of the Periodicals Class.***

As I understand it, the traditional approach to Periodicals rate design is a combination of rate averaging (grouping higher-cost and lower cost mailers in developing base rates) and rate discounts that balances cost and efficiency considerations with the fundamental purpose of the Periodicals class – to promote the widespread dissemination of diverse editorial content through preferential postal rates, in view of the “educational, cultural, scientific and informational [‘ECSI’] value to the recipient of the mail matter” (39 U.S.C. § 3622(b)(8)) and its role in binding the nation together. The radical de-averaging proposed by Complainants seems antithetical to the maintenance of a broad, vibrant and diverse Periodicals class in accord with its fundamental purpose.

Complainants’ proposal would in all likelihood expose thousands of smaller publications to large rate increases that may approach or exceed Standard rates in some cases or otherwise threaten the viability of financially vulnerable publications. This seems all the more anomalous considering that smaller publications have already

1 borne the brunt of the inordinate cost increases attributed to Periodicals over the years,
as I discussed in part IV above. To the extent that a significant portion of those costs
3 may have been *misallocated* to Periodicals mail rather than caused by any Periodicals
4 mailers, as Time Warner has long asserted, it seems especially appropriate that the
5 cost burden be shared on an equitable basis through rate averaging.

6 Why does McGraw-Hill care, considering that the savings that could be realized
7 by *Business Week* under Complainants' proposal would substantially outweigh the
8 exposure of most of McGraw-Hill's smaller publications to a range of rate increases?
9 Beyond the fact that each of McGraw-Hill's publications must stand on its own
10 financially, the answer lies in a broader perspective that recognizes the considerable
11 benefits inuring to *all* Periodicals -- large and small, low-cost and high-cost -- as
members of a mail class receiving preferential rates due to the ECSI value of
13 Periodicals generally.

14 Consider *Business Week* for example. Each week over 30,000 copies are
15 entered on Thursday at the Morgan facility in Manhattan. The vast majority of these
16 copies are delivered either the next day or Saturday. All of this happens at a cost of
17 approximately 18 cents per copy. In my role at McGraw-Hill I am responsible for
18 logistics on a worldwide basis and negotiate contracts with a wide variety of carriers.
19 Rest assured that no alternative avenue available to me provides the combination of
20 price and service that is afforded by Periodicals rates.

21 While we would certainly be happy to see *Business Week* pay only 16 or 17
22 cents per copy, as might be expected under the Complainants' proposal, it seems hard
to bemoan our plight without considering the needs of the Periodicals class as a

whole.¹¹ All Periodicals, regardless of the size of their distribution, contribute to the purpose of the class and the reasons for its preferential treatment. The Periodicals rate structure should therefore continue to accommodate a broad range of publications, not simply high-circulation/low cost publications. A rate structure that marginalized small publications could ultimately marginalize the Periodicals class itself and call into question its long-term viability. Generally speaking, therefore, it seems that rate averaging is to a considerable degree the glue that holds the class together, and the price for the preferential rates afforded the class as a whole – including both *Business Week* and Complainants' publications.

2. Higher-Cost Periodicals Mail Tends to Receive Below-Standard Service.

Complainants assert that the generally higher costs of processing sacked Periodicals mail should be more precisely reflected in the rate structure. A countervailing consideration, however, is McGraw-Hill's experience that all other things being equal, palletized mail generally receives better service than sacked mail. For example, a 3-digit pallet entered at an ADC will generally be processed quicker than a 3-digit sack entered at the same facility. In our experience, the Postal Service fails more often to meet delivery service standards for Periodicals mailed in sacks than for Periodicals mailed on pallets.¹²

¹¹ In apt words attributed to Albert Einstein: "Not everything that counts can be counted, and not everything that can be counted counts."

¹² The Red Tag News Association delivery reports for July 2004, while not distinguishing between sacks and pallets, indicate that nearly 40% of the copies monitored were delivered later than the Postal Service standard.

1 Consider *Aviation Week*, a time-sensitive publication printed in Strasburg,
 2 Virginia that origin-enters a significant portion of its mailed copies. Over the course of
 3 four weeks spanning its July 12 through August 2 issues this summer, we monitored
 4 the days it took from origin-entry to final delivery of pre-selected copies of *Aviation*
 5 *Week*, and kept track of whether they were mailed in sacks or on pallets, and at what
 6 presort level. We found that service for sacked mail was generally slower than for
 7 palletized mail on the same route, sometimes markedly so. In one Buffalo, New York
 8 zip code, for example, an ADC pallet was delivered in three days while three 3-digit
 9 sacks were delivered in seven, six, and three days, respectively. A number of other
 10 such examples could be cited. The Postal Service's standard for delivery of this mail,
 11 whether entered in sacks or on pallets, is three days.¹³

 According to the direct testimony of witness Mitchell, the statutory policies
 13 governing the Commission's recommendations include maintaining a "fair and equitable
 14 [rate] schedule." (39 U.S.C. § 3622(b)(1)). It does not seem "fair and equitable" to de-
 15 average Periodicals costs and rates in order to charge more for sacked mail if it
 16 receives generally slower service than palletized mail. Moreover, sacked mail already
 17 pays a higher rate of postage due to the existing pallet discounts. It therefore seems
 18 fair and equitable to continue averaging the rates (and applying appropriate pallet and
 19 drop-ship discounts) because even if palletized mail generally costs the Postal Service
 20 less, pallets pay less and generally receive better service.

¹³ While we would of course strongly prefer that service variances of this type happened with less frequency, we are also cognizant of the myriad factors that can affect mail delivery. We work with the Postal Service through a number of avenues to address these factors, including dialogue with its Business Service Network and use of its e-PubWatch.

1 As pointed out in witness Mitchell's testimony, an express ratemaking factor
under the Postal Reorganization Act is the "value of the mail service actually provided
3 each class or type of mail service to both the sender and the recipient...." (*Id.*

4 § 3622(b)(2)).¹⁴ Therefore, in considering whether to recommend de-averaged rates in
5 this proceeding, the Commission should consider the level of service actually provided
6 to the mail in question. In my view, below-standard service amounts to a regressive tax
7 on the affected mail. To the extent mailers of sacks receive less service than they paid
8 for, they are already in effect paying higher rates than the Commission intended.

9 It is often said that the Postal Service should behave more like private industry.
10 It is difficult to believe, however, that FedEx would substantially raise the price for a
11 service that it marketed as three-day package delivery if it in fact often delivered the
package in more than three days. Rather, I believe that FedEx would likely provide
13 refunds and reduce the price unless and until its service improved. I am simply
14 suggesting here that the Postal Service should continue with averaged rates for
15 Periodicals mail, whether sacked or palletized, at least unless and until equivalent
16 service is provided for sacked and palletized mail.¹⁵

¹⁴ Another statutory ratemaking policy noted by witness Mitchell is "simplicity of structure for the entire rate schedule...." (*Id.* § 3622(b)(7)). Witness Mitchell acknowledged in his direct testimony (at page 45) that "Periodicals has long been recognized as the class with the most complex rate structure." Contrary to the statutory policy, Complainants' proposed new rate structure for Periodicals is even more complex and, indeed, would be unmanageable for most Periodicals mailers, as I explained in part IV.C above.

¹⁵In the view of many mailers, so-called "skin" sacks – typically consisting of only six or fewer pieces, all going to the same 5-digit zip code – generally receive better mail service than sacks with more pieces that are not as finely presorted. My understanding is that the Postal Service is considering distinct rate treatment for skin sacks to the extent that they may be deemed more costly for it to handle. I express no view on this discrete issue. McGraw-Hill makes only limited use of skin sacks for service reasons.

B. The Commission Should Not Abandon Its Longstanding Policy to Promote the Widespread Dissemination of Editorial Content Through a Low Pound Charge for Editorial Content.

As recently as 1998, the Commission rejected a rate design proposal that would have substantially increased the flat editorial pound charge on grounds that, as expressed by McGraw-Hill witness Hehir, it could “undermine the historical commitment (embodied in the Postal Reorganization Act) to promote the widespread dissemination of editorial content through the mail.” (R97-1, Op. & Rec. Dec. ¶¶ 5783-5788). Complainants nevertheless propose in this proceeding to reverse the Commission’s longstanding policy in favor of the flat editorial pound charge, which has traditionally been set at about 75% of the lowest zone charge for advertising content, and to impose on editorial content the same zoned pound charges that apply to advertising content.¹⁶

McGraw-Hill does not believe that Complainants have presented any valid justification in this proceeding for abandoning the “historical commitment (embodied in the Postal Reorganization Act) to promote the widespread dissemination of editorial content through the mail.”

1. Witness Gordon

The testimony by witness Gordon presents no reason for the Commission to retreat from that mandate. Indeed, witness Gordon acknowledged that notwithstanding the rise of the internet, the “educational, cultural, scientific and informational value that periodical publications provide today is no less than ... in 1976” (Tr. 3/700) and that Periodicals thus continue to play a role in binding the nation together. (Tr. 3/656-57,

¹⁶ Complainants propose a 10.1 cents per pound discount for editorial content. I note that this approach would provide high-circulation/low cost Periodicals like Complainants’ with a greater percentage reduction in their postage than would be received by low-circulation/high-cost Periodicals with the same weight and editorial percentage.

714). It is likewise McGraw-Hill's view that the vital role of hard-copy Periodicals is undiminished, particularly for business, professional and technical publications such as those published by McGraw-Hill.

The internet has complemented rather than displaced the role of McGraw-Hill's hard-copy Periodicals. Those publications remain in strong demand because they provide timely, reliable, comprehensive and cutting-edge news and analysis.¹⁷ They are perceived by many as more convenient and portable than computer screens, which may not even be readily available to many subscribers. Our experience is consistent with a recent survey report entitled "The Internet and Daily Life", released last month by the PEW Internet and American Life Project (available at www.pewinternet.org). According to the report (at iii, vi), only 18% of internet users who read for pleasure do so online, and only 5% do so exclusively online while 82% do so exclusively *offline*. Only 22% of internet users who obtain news both online and offline do so more often online; 71% do so more often *offline*. The report concluded (at v): "The integration of the Internet into everyday life doesn't match its popular appeal. Most Internet users still default to the traditional offline ways of communicating, transacting affairs, getting information, and entertaining themselves."¹⁸

¹⁷ As reported on its website (<http://mediakit.businessweek.com/mkh-edall.html>), *Business Week's* mission statement is to "sort[] through the complexity of today's issues for business professionals" and to "separate the inconsequential from the essential. We ask tough questions in approaching any topic across our franchise: Are we being original? Are we breaking a story? Are we adding to the sum of knowledge in a way that is meaningful and important to people? If the answer is no, we don't waste their time."

¹⁸ The survey report also concluded (at v) that younger people were more likely to be comfortable with the internet than older people, and that men were more likely than women to use the internet for information gathering and entertainment.

1 While nearly all of McGraw-Hill's Periodicals feature websites (putting aside our
2 *Dodge* publications), they are a complement to the subscriber-demanded print copy.

3 The websites provide editorial content of the publications as well as ancillary material.

4 Although witness Gordon did not appreciate the continuing significance of
5 preferential Periodicals postal rates in binding the nation together, he admittedly lacked
6 knowledge of the role played by such rates in the viability of start-up magazines and the
7 economics of small-circulation magazines that are mailed long distances. (Tr. 3/739).
8 The voices of such magazines clearly play an important role in binding the nation
9 together by meeting diverse informational needs that may not otherwise be served, and
10 forming and sustaining distinct communities defined by common interests rather than
11 geographic proximity.

14 2. ***Witness Mitchell***

15 Witness Mitchell likewise failed to appreciate the role played by the flat editorial
16 pound charge in the economics of such magazines. He suggested that under
17 Complainants' proposal to apply the zoned pound charges for advertising content to
18 editorial content as well, the potentially dramatic increase in the cost of mailing a
19 publication across the country would likely be offset by the publication's marginal
20 subscription revenue (unless it is a requester publication that has no subscription
21 revenue) and/or its marginal advertising revenue (unless it is a high-editorial publication
22 that has no significant advertising revenue). (Tr. 3/860, 862-63).

23 However, contrary to witness Mitchell's explicit assumptions, (1) a publisher's net
24 subscription revenue ("circ net") may be a low percentage of the subscription price to
25 the extent subscriptions are sold through independent sales agents, as is common for

1 many publications; and (2) advertising revenue does not commonly vary directly with
circulation, and would not necessarily be affected by dropping or avoiding subscribers in
3 high postal zones. The common practice of publications that offer guaranteed rate
4 bases, including *Business Week*, is to base advertising rates on a circulation level
5 comfortably short of actual circulation so that rebates to advertisers will not become
6 necessary as actual circulation fluctuates. Other publications simply provide advertisers
7 with forecast circulation, without any guarantees, as in the case of many McGraw-Hill
8 publications.

9 While witness Mitchell also presents other arguments in seeking overturn the
10 Commission's longstanding policy in favor of the flat editorial pound charge, I
11 understand that the Commission rejected very similar arguments by witness Mitchell in
the R90-1 rate case, and I see no reason why it should reverse course now. In my
13 view, the uniform editorial pound charge is no more "discriminatory" than any "rate
14 averaging," which necessarily benefits above-average-cost mailers more than other
15 mailers. Further, in my understanding, the low editorial pound charge is set well below
16 the average (weight-related) costs of mailing editorial content (which are largely
17 absorbed in the advertising pound charges), and benefits Periodicals to the extent that
18 they mail editorial content to distant subscribers.

19 Witness Mitchell focuses on local and regional (outside-county) Periodicals, and
20 assumes that a substantial portion of them are printed and mailed in close proximity to
21 their delivery area.¹⁹ Even if he is correct that some such publications might save some
22 money if the editorial pound charge were zoned, this seems analogous to cross-town

¹⁹ I note that Complainants do not apparently publish any local or regional Periodicals about which witness Mitchell professes concern. Rather, Complainants publish a number of high-circulation/low-cost Periodicals that engage in extensive drop-shipping to their delivery areas.

1 single-letter mailers complaining that they would save money if the flat First-Class
stamp rate was de-averaged and zoned. The policy that nevertheless justifies the low
3 uniform pound charge for editorial content, as I understand it, is to help bind the nation
4 together by lowering the cost of mailing editorial content to distant subscribers, and
5 thereby fostering its widespread distribution throughout the nation. It therefore does not
6 seem surprising or troubling that the flat editorial pound charge may provide more
7 benefit to those Periodicals that mail editorial content to more distant subscribers.

8 In R2001-1, the Postal Service proposed to establish drop-ship discounts from
9 the otherwise flat editorial pound charge, asserting that this would address concerns
10 with Periodicals costs in a balanced way and provide further incentive for smaller
11 publications to co-mail or co-palletize and drop-ship the combined mailing. McGraw-Hill
and other parties expressed reservations about the proposal, noting that as structured it
13 would require increasing the flat editorial pound charge somewhat above its traditional
14 level, and that it might eventually lead to full zoning of editorial pound charges. While
15 the proposal was not included in the settlement of R2001-1, McGraw-Hill is informed
16 that the Postal Service may consider a similar proposal in the next rate case.

17 We must of course fully reserve judgment on any such proposal. However, I can
18 state that in principle, a proposal to establish drop-ship discounts from the flat editorial
19 pound charge may at least be a more balanced approach to the issues underlying this
20 proceeding than the rather drastic proposals advanced by Complainants. With such
21 discounts, those Periodicals that can drop-ship or otherwise enter their mail close to its
22 destination would see a rate reduction, while those that cannot do so would not incur

1 zoned editorial pound rates that would make it much more costly to reach distant
subscribers.

3
4
5
6
7 **Conclusion**
8

9 McGraw-Hill has little doubt that the outside-county Periodicals rate design might
10 be improved in some respects. However, McGraw-Hill cannot agree with Complainants
11 that there is any need or justification for radically transforming the current rate structure,
12 and the Commission's longstanding policies that underlie it, in order to provide windfall
13 savings to a relatively few large publications while imposing substantial additional cost
14 increases on thousands of smaller publications that have already borne the brunt of
exceptional cost increases over the years.

BROWN**LOGISTICS SERVICES**www.bpc.com

Distribution Directions

Special Issue 01

August 30, 2004

Published by Brown Logistics Services – Waseca, MN

Special Issue

Brown Logistics Services Announces Copalletization Service for Periodicals

"Pallets provide better dropshipping opportunities, which in turn improve delivery and reduces postage."

Robert Williams
Manager, Postal Affairs &
Delivery Services
PennWell Corporation

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WASECA, MN August 30, 2004 – Brown Logistics Services (BLS), a division of Brown Printing Company, announced plans to provide copalletization services to its customers by January 2005. This is an initial phase of BLS' current strategy to achieve greater distribution savings and to enhance services.

The introduction of copalletization will help offset the trend in rising paper, transportation and postal costs for customers whose copies travel in mail sacks. Benefits for participants include copalletization postage workshare discounts, expanded dropship workshare discounts and improved handling and service. Copies can now be placed on pallets for transport and delivery to the USPS. The elimination of sacks will allow bundles to move further into the postal system, thus reducing handling and speeding delivery. Where delivery time for sacked mail could take 7-14 days to reach the desired destination, copalletized mail will be entered closer to the delivery point and can average 3-9 days delivery.

Although magazines that now have a larger percentage of mail that is sacked may realize greater benefits, every customer can participate and receive the benefits without requiring additional process changes or restrictions. BLS' copalletization service will be part of its everyday mailing and distribution operations, providing seamless mail delivery.

Robert Williams, Manager of Postal Affairs and Delivery Services, PennWell Corporation, agrees. "Copalletizing is the wave of the future for small volume periodical publications. It will help create more pallets while significantly reducing the number of costly mail sacks. Furthermore, pallets provide better dropshipping opportunities, which in turn improve delivery and reduces postage. PennWell is thrilled that Brown is going to be offering this copalletization service."

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Bernie Schraml, Director of Distribution Services/Postal Affairs at **G+J Publishing USA**, says, "This is great news for the industry! The benefits of moving publications from sacks to pallets are now within reach for all publications. No matter how many magazines a publisher mails, copalletization will enable publishers to reduce their distribution costs by qualifying for copalletization and drop shipping discounts. This also gives a big boost to the Postal Service in its campaign to replace mail sacks with more efficient containerization."

In conjunction with ongoing USPS changes in rates, processes and technologies, Brown Logistics Services continues to actively work with the USPS and industry leaders to shape the future of mailing and distribution. BLS continues to evaluate and develop enhancements and service offerings as an overall strategy to better serve our customers.

Time Inc.'s Scott Lorenz, Director of Postal Operations and Systems, says, "Time Inc. views co-pal as an opportunity to drive costs out of the U.S. Postal Service for mailings that were originally in sacks. This new program represents one of the positive steps that can be realized by working closely with the USPS in an effective effort to reduce costs while continuing to meet the needs of mailers."

Brown Printing Company is a nationally recognized, high quality and high volume printer serving America's premier magazine, catalog and insert publishers. Brown is the 4th largest printer of consumer, trade and business publications in the country. Founded in 1957, Brown is a long-term industry leader printing more than 500 magazine titles for nearly 400 clients with annual sales of \$375 million and 2,600 employees. A Bertelsmann & Gruner + Jahr AG Company, Brown operates 3 state-of-the-art manufacturing facilities in the United States.

For further information, visit Brown Printing Company's web site at:
www.bpc.com

This Newsletter contains hyperlinks or references to other Internet Sites on the World Wide Web. These links are provided for your convenience only. As soon as you use these links you leave this newsletter. The linked sites are not under the control of Brown Printing. Thus, Brown Printing is not responsible for the contents or for any form of transmission received from any linked Web Site or reference linked to or from this newsletter. Brown Printing disclaims all warranties, expressed or implied, and accepts no responsibility for the quality, nature, accuracy, reliability or validity of any content on any linked Web Site. Links from this newsletter to any other Web Site do not mean that Brown Printing approves or endorses or recommends that Web Site.

FAIRRINGTON

Transportation services you can trust

Telephone * 630-783-9200

Fax * 630-783-9601



FAIRRINGTON Transportation Corporation

553 South Joliet Road Suite B * Bolingbrook, IL 60440

August 20, 2004

Fairrington Transportation announced today that it has completed contractual negotiations with several major clients to begin providing copalletization services for their client's Periodical sacked mail.

Early projections estimate an annual copalletization volume in excess of 60,000,000 pieces and an elimination of over 2,000,000 sacks.

Copal pools will be run daily and the automated process has the capability to process double the estimated annual volume.

Start up is estimated to be in December 2004 or January 2005.



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August 2, 2004

Quebecor World Logistics Expands U.S. Short-Run Co-Mail Platform to Cut Costs and Improve Service for Magazine Publishers

Montréal, Canada – Quebecor World (NYSE, TSX: IQW) Logistics (QWL) is investing in the latest co-mail technology to reduce costs for short- and medium-run magazine publishers. With this investment, QWL will offer its enhanced co-mail process, the Express Collation Mailing System, which will reduce gross postage by up to 30 percent and improve overall postal distribution service.

This initial co-mail enhancement is the first phase of QWL's three-year strategy targeted at creating a multiple-pool platform that will ultimately offer three co-mail machines with at least 30 pockets each. QWL plans to invest in a new Chicago facility in early 2005 to house these enhanced co-mail capabilities in addition to its distribution operations.

"Rising paper and transportation costs – combined with the threat of postal increases – have created an ominous cloud over which we have little control," explains Karen Dauck, Director of Purchasing and Fulfillment for the Cricket Magazine Group of Carus Publishing Company. "But there's light at the end of the tunnel, after all! We are excited about this opportunity for our smaller-run publications to participate in QWL's co-mailing environment and benefit from maximum postal discounts."

Co-mail is a process that merges multiple mail files into a single larger list in order to maximize presort discounts and optimize packaging to get mail deeper into the postal system. QWL's Express Collation Mailing System is unique to the industry in that it offers simultaneous, dynamic multi-origin co-mailing and nationwide distribution. Unlike other networks, publishers need not adjust their scheduling just to enter a QWL co-mail pool.

"We view co-mailing as a great opportunity for short-run publishers and as being absolutely essential if we are to protect our titles from the pending rate increase," said Christy Martin, Distribution Director for Primedia Business Information. "The idea of a dynamic pooling tool as proposed by QWL is certainly very attractive to us and it will make it much easier for us to maximize the amount of mail eligible for co-mailing."

Postal rates are expected to increase by 7 to 13 percent by 2006. Short-run publishers will be hit the hardest in the next rate increase because they don't always have the volume to achieve worksharing discounts like long-run publishers; but QWL's Express Collation Mailing System will help to minimize the overall impact to these publishers. Since postage accounts for approximately 30 percent of publishers' total production costs, mailers are urging the USPS to increase worksharing opportunities such as drop shipping and co-mailing, to reduce the impact of rising rates.

Annual Re

"These upgrades to our co-mail platform have been well planned, and will result in a seamless process to serve our many valued customers," said QWL's President, Brad Nathan. "Our Express Collation Mailing System will help the USPS streamline operations and increase worksharing initiatives; help publishers save postage dollars; and help QWL maintain superior service in distribution overall."

QWL provides logistics and mail list services for all Quebecor World and various third party customers, handling multiple commodities including catalogs, direct mail pieces, magazines (subscriber copies and newsstand), newspaper inserts, books and bulk printed product.

Quebecor World Inc. (NYSE: IQW; TSX: IQW) is one of the largest commercial printers in the world. It is a market leader in most of its major product categories which include magazines, inserts and circulars, books, catalogs, specialty printing and direct mail, directories, digital pre-media, logistics, mail list technologies and other value added services. Quebecor World Inc. has approximately 37,000 employees working in more than 160 printing and related facilities in the United States, Canada, Brazil, France, the United Kingdom, Belgium, Spain, Austria, Sweden, Switzerland, Finland, Chile, Argentina, Peru, Colombia, Mexico and India.

Web address: www.quebecorworld.com

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[Back to News](#)

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

RECEIVED

2004 NOV -4 A 11: 27

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

COMPLAINT OF TIME WARNER INC. et al.
CONCERNING PERIODICALS RATES

Docket No. C2004-1

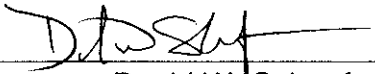
DECLARATION IN SUPPORT OF MOTION OF THE MCGRAW-HILL COMPANIES
INC. FOR ACCEPTANCE OF DIRECT TESTIMONY INTO THE EVIDENTIARY
RECORD
(November 4, 2004)

Pursuant to Presiding Officer's Ruling C2004-1/14 issued October 28, 2004, and in support of the accompanying Motion of the McGraw-Hill Companies, Inc. for Acceptance of Direct Testimony Into the Evidentiary Record, I, David W. Schaefer, do hereby declare under penalty of perjury that:

1. The *Direct Testimony of David Schaefer on Behalf of The McGraw-Hill Companies, Inc.*, denominated MH-T-1 and filed on September 9, 2004, was prepared by me and under my direction;
2. The only correction that I offer to my testimony as originally filed is that on page 11 in footnote 4, the aggregate annual postage savings of Time Warner Inc. under the proposed rates (without any change in mailing practices) should be changed from \$16.8 million to \$23.9 million in accord with the correction made by American Business Media in response to Presiding Officer's Information Request No. 3;
3. My testimony would otherwise be the same if I were to testify orally before the Commission in this proceeding;

4. The interrogatory answers filed under my name and designated for inclusion in the record in this proceeding were prepared by me and under my direction; and

5. My answers to those interrogatories would be the same if they were to be posed to me as part of oral cross-examination in this proceeding.



David W. Schaefer

November 2, 2004

**McGraw-Hill Companies, Inc., The
Institutional**

Response of McGraw-Hill to TW et al./MH –1 (Page 1 of 4)

TW et al./MH-1: Please provide a list of all publications issued by McGraw-Hill and its subsidiaries and affiliates. Please include every publication with some editorial content that is issued with regular frequency and meets at least one of the following criteria:

- a. it is delivered in hardcopy form by the U.S. Postal Service;
- b. it is delivered in hardcopy to addresses in the United States without assistance from the Postal Service;
- c. it is either emailed or made available for downloading in electronic form to requesters and/or subscribers; or
- d. its contents can be accessed on the internet – either without charge or for a fee.

For each publication identified, please specify its frequency (number of issues per year) and the McGraw-Hill division/subsidiary/affiliate that publishes it. Additionally, please provide, when applicable, the internet url's for each publication.

Response:

Periodicals Class

Aviation Week Group

Aviation Week (weekly – www.Aviationnow.com)
 Overhaul & Maintenance (monthly – www.Aviationnow.com)
 Business & Commercial Aviation (monthly – www.Aviationnow.com)

BusinessWeek

BusinessWeek (weekly – www.BusinessWeek.com)

Healthcare Information Group

Healthcare Informatics (monthly – www.healthcare-informatics.com)
 Physicians & Sports Medicine (monthly – www.physsportsmed.com)
 PostGraduate Medicine (monthly – www.postgradmed.com)

McGraw-Hill Construction

Architectural Record (monthly – archrecord.construction.com)
 Engineering News Record (weekly – enr.construction.com)
 Dodge
 Texas Construction (monthly – regionalpublications.construction.com)
 Southeast Construction (monthly – regionalpublications.construction.com)
 Midwest Construction (monthly – regionalpublications.construction.com)
 Louisiana Construction (monthly – regionalpublications.construction.com)
 New York Construction (monthly – regionalpublications.construction.com)
 Colorado Construction (monthly – regionalpublications.construction.com)
 Southwest Magazine (monthly – regionalpublications.construction.com)
 McGraw-Hill Construction Dodge Construction News Weekly

Response of McGraw-Hill to TW et al./MH – 1 (page 2 of 4)

McGraw-Hill Construction Dodge Construction Northwest Construction Weekly
 McGraw-Hill Construction Dodge Construction News West Weekly
 McGraw-Hill Construction Dodge Intermountain Contractor News Weekly
 McGraw-Hill Construction Dodge Construction News Weekly - New Mexico West Texas
 Edition
 McGraw-Hill Construction Dodge Construction News Weekly - South Plains Edition
 The Greensheet (daily)
 Dodge Daily Journal (daily)
 Daily Pacific Builder (daily)
 Dodge Construction News – Chicago (daily)
 Dodge Daily Bulletin Arizona
 Dodge Daily Bulletin Balti/Delaware
 Dodge Daily Bulletin Baltimore
 Dodge Daily Bulletin Buffalo Metro
 Dodge Daily Bulletin Buffalo/Vicinity
 Dodge Daily Bulletin Cincinnati
 Dodge Daily Bulletin Connecticut
 Dodge Daily Bulletin Detroit
 Dodge Daily Bulletin Detroit Central
 Dodge Daily Bulletin Eastern MA
 Dodge Daily Bulletin Kansas
 Dodge Daily Bulletin Kansas City
 Dodge Daily Bulletin ME/NH/VT
 Dodge Daily Bulletin Pittsburgh
 Dodge Daily Bulletin Rhode Island
 Dodge Daily Bulletin W Missouri
 Dodge Daily Bulletin Washington/Vic
 Dodge Daily Bulletin Western MA
 Dodge Daily Bulletin Wichita
 Dodge Daily Bulletin Austin/San Antonio
 Dodge Daily Bulletin Dallas
 Dodge Daily Bulletin E Oklahoma
 Dodge Daily Bulletin Fort Worth
 Dodge Daily Bulletin Houston
 Dodge Daily Bulletin Louisiana
 Dodge Daily Bulletin Mississippi
 Dodge Daily Bulletin New Mexico
 Dodge Daily Bulletin New Orleans
 Dodge Daily Bulletin New Orleans Engineering
 Dodge Daily Bulletin NM W Tex Ed.
 Dodge Daily Bulletin NW & W Texas
 Dodge Daily Bulletin TX Engineering
 Dodge Daily Bulletin W Oklahoma
 Dodge Daily Bulletin 5 Boros
 Dodge Daily Bulletin Long Island
 Dodge Daily Bulletin Manhattan
 Dodge Daily Bulletin Nassau/Suffolk
 Dodge Daily Bulletin Northern NJ
 Dodge Daily Bulletin Phila Housing
 Dodge Daily Bulletin So NJ/DE Housing
 Dodge Daily Bulletin Westchester
 Dodge Daily Bulletin Broward County

Response of McGraw-Hill to TW et al./MH –1**(page 3 of 4)**

Dodge Daily Bulletin Miami
 Dodge Daily Bulletin Miami Engineering
 Dodge Daily Bulletin Orlando/Vicinity
 Dodge Daily Bulletin Palm Beach
 Dodge Daily Bulletin West Central Florida

Platts

Power (monthly – powermag.platts.com)

Standard & Poor's

Bond Guide (monthly – netadvantage.standardandpoors.com)
 Corporation Descriptions (monthly)
 Corporation Records (daily and monthly - netadvantage.standardandpoors.com)
 Dividend Record Daily (netadvantage.standardandpoors.com)
 Dividend Record Weekly (netadvantage.standardandpoors.com)
 Earnings Guide (monthly - netadvantage.standardandpoors.com)
 Industry Survey (weekly www.advisorinsight.com)
 Statistical Service (monthly)
 Stock Guide (monthly - netadvantage.standardandpoors.com)
 The Outlook (weekly - netadvantage.standardandpoors.com or www.spoutlookonline.com)

First Class – Newsletters**Aviation Week Group**

Aviation Week's Aviation Daily (weekly – www.AviationWeek.com/aviationdaily)
 Aviation Week's Aerospace Daily & Defense Report (weekly -
www.AviationWeek.com/aerospacedaily)
 McGraw-Hill's Homeland Security & Defense (weekly - www.AviationWeek.com/hsd)
 Aviation Week's The Weekly of Business Aviation (weekly -
www.AviationWeek.com/businessweekly)
 AviationWeek's NetDefense (weekly - www.AviationWeek.com/netdefense)

Platts – Each of the following Platts newsletters is a weekly unless otherwise designated in its title. In addition, each of the listed publications is delivered in one or more of the following ways: accessible to subscribers at online.platts.com; delivered electronically to a subscriber by means of the Internet (PDF or txt) or fax; or delivered in print form by the USPS. Platts is currently moving all but one of the listed newsletters to electronic delivery eliminating First Class delivery.

Asia Pacific Arab Gulf Marketscan
 Bunkerwire
 China Fuel Oil Report
 China Wire
 Clean Tankerwire
 Clean Tankerwire Monthly
 Crude Oil Marketwire
 Dirty Tankerwire
 Dirty Tankerwire Monthly
 Energy Economist
 EU Energy
 European Marketscan
 Inside Energy/Inside EnergyExtra
 Japanwire
 Latin America Wire

Response of McGraw-Hill to TW et al./MH – 1**(page 4 of 4)**

LP Gaswire
 Neft Trader
 North American Crude Wire
 North Sea Letter
 Oilgram News
 Oilgram Price Report
 Refiner
 US Marketscan
 Energy in East Europe
 Energy Trader
 European Natural Gas Report
 Gas Daily
 Gas Market Report
 Inside FERC
 International Gas Report
 LNG Daily
 UK Gas Report
 Inside NRC
 Nuclear Fuels
 Nuclear News Flash
 Nucleonics Week
 Electric Power Daily
 Electric Utility Week
 Energy Economist
 European Electricity Review
 European Power Daily
 Global Power Report
 Global Water Report
 Independent Power Book
 Megawatt Daily
 Power Asia
 Power in Europe
 Power in Latin America
 Power Markets Week
 Power UK
 Renewable Energy Report
 Coal Outlook
 Coal Trader
 Coal Trader International
 EU Energy
 Inside Energy
 International Coal Report
 Asian Petrochemicalscan
 Intermediateswire
 Olefinscan
 Petrochemical Report
 Petrochemicalscan America and Europe
 Platts PET Wire
 Polymerscan
 PP Europe
 Solventwire
 Metals Week (includes Metals Daily)

Response of McGraw-Hill to TW et al./MH – 2

TW et al./MH-2: For each McGraw-Hill publication identified in your response to the preceding interrogatory, please indicate which of the following apply. If modes of delivery other than those indicated in the list below are used for some publications, then please describe those additional delivery modes and identify the publications to which they apply.

- a. the publication is distributed through the U.S. Postal Service as a regular rate non-requester publication;
- b. it is distributed through the U.S. Postal Service as a requester publication;
- c. it is distributed through the U.S. Postal Service as a nonprofit or classroom publication;
- d. it is printed and distributed through the U.S. Postal Service under a different rate structure (please specify);
- e. it is distributed in hardcopy form by means other than the U.S. Postal Service;
- f. it is distributed electronically by email to those who request it;
- g. it is distributed electronically by email to paying subscribers;
- h. an electronic version can be downloaded from the internet by all who request it;
- i. an electronic version can be downloaded from the internet by paying subscribers;
- j. some of the publication's editorial contents are accessible on an internet website;
- k. all or most of the publication's editorial contents are accessible on an internet website to paying subscribers;
- l. all or most of the publication's editorial contents are accessible on an internet website, either without restriction or to all who complete an online survey;
- m. the publication's electronic version offers features not available in the hardcopy version, e.g., ability to click through to references made in the text, search capability, additional editorial content, more frequent updates, etc.

Response: See attachment "TW-MH-2spreadsheet".

Southwest Magazine

1969

[illegible]

	a	b	c	d	e	f	g	h	i	j	k	l	m
Dodge Daily Bulletin Wichita	x												
Dodge Daily Bulletin Austin/San Antonio	x												
Dodge Daily Bulletin Dallas	x												
Dodge Daily Bulletin E Oklahoma	x												
Dodge Daily Bulletin Fort Worth	x												
Dodge Daily Bulletin Houston	x												
Dodge Daily Bulletin Louisiana	x												
Dodge Daily Bulletin Mississippi	x												
Dodge Daily Bulletin New Mexico	x												
Dodge Daily Bulletin New Orleans	x												
Dodge Daily Bulletin New Orleans Engineering	x												
Dodge Daily Bulletin NM: W Tex Ed	x												
Dodge Daily Bulletin NW & W Texas	x												
Dodge Daily Bulletin TX Engineering	x												
Dodge Daily Bulletin W Oklahoma	x												
Dodge Daily Bulletin 5 Boros	x												
Dodge Daily Bulletin Long Island	x												
Dodge Daily Bulletin Manhattan	x												
Dodge Daily Bulletin Nassau/Suffolk	x												
Dodge Daily Bulletin Northern NJ	x												
Dodge Daily Bulletin Phila Housing	x												
Dodge Daily Bulletin So NJ/DE Housing	x												
Dodge Daily Bulletin Westchester	x												
Dodge Daily Bulletin Broward County	x												
Dodge Daily Bulletin Miami	x												
Dodge Daily Bulletin Miami Engineering	x												
Dodge Daily Bulletin Orlando/Vicinity	x												
Dodge Daily Bulletin Palm Beach	x												
Dodge Daily Bulletin West Central Florida	x												
Platts (Newsletters)													
Asia Pacific Arab Gulf Marketscan							x		x				
Bunkerwire							x		x				
China Fuel Oil Report							x		x				
China Wire							x		x				
Clean Tankerwire							x		x				

Clean Tankerwire Monthly
 Crude Oil Marketwire
 Dirty Tankerwire
 Dirty Tankerwire Monthly
 Energy Economist
 EU Energy
 European Marketscan
 Inside Energy/Inside EnergyExtra
 Japanwire
 Latin America Wire
 LP Gaswire
 Neft Trader
 North American Crude Wire
 North Sea Letter
 Oilgram News
 Oilgram Price Report
 Refiner
 US Marketscan
 Energy in East Europe
 Energy Trader
 European Natural Gas Report
 Gas Daily
 Gas Market Report
 Inside FERC
 International Gas Report
 LNG Daily
 UK Gas Report
 Inside NRC
 Nuclear Fuels
 Nuclear News Flash
 Nucleonics Week
 Electric Power Daily
 Electric Utility Week
 European Electricity Review
 European Power Daily
 Global Power Report

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Global Water Report
 Independent Power Book
 Megawatt Daily
 Power Asia
 Power in Europe
 Power in Latin America
 Power Markets Week
 Power UK
 Renewable Energy Report
 Coal Outlook
 Coal Trader
 Coal Trader International
 International Coal Report
 Asian Petrochemicalscan
 Internediatewire
 Olefinscan
 Petrochemical Report
 Petrochemicalscan America and Europe
 Platts PET Wire
 Polymerscan
 PP Europe
 Solventwire
 Metals Week (includes Metals Daily)

* Mailed First Class

a	b	c	d	e	f	g	h	i	j	k	l	m
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Response of McGraw-Hill to TW et al./MH –3

TW et al./MH—3: For each McGraw-Hill publication that is distributed through the U.S. Postal Service under Periodicals rates, please provide a copy of the most recent ownership statement required by 39 U.S.C. § 3685 and a representative copy of a recent mailing statement (form 3541). Additionally, please provide the following information, to the extent available, for each such publication.

- a. shape (letter/flat);
- b. average number of mailed pieces per issue;
- c. average weight per piece;
- d. average total print order per issue;
- e. printer and ZIP Code where printed;
- f. percent at each presort level (carrier route, 5-digit, 3-digit and basic);
- g. for each presort level, the percent that is pre-barcoded;
- h. percent qualifying for each per-piece discount provided under current rates;
- i. percent that is palletized;
- j. percent editorial content;
- k. percent of advertising pounds entered in each zone;
- l. average number of pieces per bundle;
- m. for sacked pieces, average number of pieces per sack;
- n. for palletized pieces, average number of pieces per pallet.

Response: McGraw-Hill will produce forthwith to Complainants the ownership statements requested. McGraw-Hill has filed an objection to production of the requested mailing statements, and understands Complainants to have withdrawn that request. The remaining information requested is provided in attachments “TW-MH-3a-d_3f-n” and “TW-MH-3e”.

THE McGRAW-HILL COMPANIES

Response to Time Warner Inc. at al

Periodical Class Publications

PUBLICATIONS		ARC	AVW	BCA	BWNA	ENR	HCI	OMT	PSM	PGM	PWO
Section											
1	Frequency	12	50	12	50	51	12	10	12	12	9
3-a	Shape (letter/flat)	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat
3-b	Mailed Pieces	92,135	80,268	36,892	928,641	70,810	37,980	9,366	100,946	135,740	50,659
	Mailed Copies	101,847	80,549	37,264	950,977	71,859	39,888	9,697	100,946	135,740	57,758
3-c	Weight	1.57	0.24	0.57	0.41	0.19	0.42	0.38	0.20	0.48	0.38
3-d	Print Order	129,250	109,628	53,131	1,154,467	81,500	44,230	18,500	104,000	141,000	65,500
3-f & g	Presort levels										
	Basic Non-Auto	1.6%	0.2%	2.4%	0.1%	1.3%	2.2%	4.1%	0.1%	0.0%	2.5%
	Basic Auto	4.5%	0.7%	2.8%	0.0%	0.7%	3.9%	17.6%	0.3%	0.2%	3.5%
	3 digit non	36.5%	0.7%	0.8%	0.2%	0.7%	1.0%	0.8%	1.1%	0.5%	1.8%
	3 digit auto	0.9%	20.7%	45.7%	3.4%	26.1%	35.6%	56.4%	18.5%	14.1%	38.7%
	5 digit non	0.2%	1.1%	0.3%	1.9%	0.1%	0.1%	0.1%	0.6%	1.1%	0.3%
	5 digit auto	47.6%	63.2%	32.3%	38.6%	62.0%	36.1%	16.2%	69.7%	66.0%	33.5%
	Carrier Route	8.7%	13.4%	15.7%	55.8%	9.1%	21.1%	4.8%	9.8%	18.1%	19.7%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
3-h	Per-Piece Discount , based on pieces										
	DDU	0.6%	0.0%	0.0%	0.3%	0.0%	0.0%	0.0%	0.0%	0.3%	0.0%
	DSCF	48.0%	3.9%	0.0%	58.4%	0.0%	0.0%	0.0%	11.9%	48.5%	0.0%
	DADC	7.2%	0.8%	0.0%	13.8%	0.0%	0.0%	0.0%	27.4%	34.7%	0.0%
3-i	Palletized percent	76.3%	72.9%	1.6%	90.9%	14.2%	0.0%	0.0%	39.4%	84.5%	19.6%
3-j	Edit Content	50%	64%	58%	53%	39%	40%	74%	55%	48%	56%
3-k	Ad entry zones, based on copies										
	DDU	0.8%	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	0.0%	0.3%	0.0%
	DSCF	39.2%	4.0%	0.0%	58.4%	0.0%	0.0%	0.0%	11.9%	48.4%	0.0%
	DADC	6.0%	0.8%	0.0%	13.8%	0.0%	0.0%	0.0%	27.4%	34.8%	0.0%
	1&2	9.4%	35.7%	2.2%	14.2%	10.0%	2.7%	6.4%	2.7%	0.7%	4.4%
	3	16.1%	15.8%	3.1%	4.8%	16.3%	3.1%	8.7%	2.1%	0.9%	14.3%
	4	12.0%	24.1%	17.4%	7.0%	23.1%	17.6%	28.0%	8.2%	2.5%	33.2%
	5	5.7%	15.0%	36.1%	1.4%	16.0%	34.9%	32.0%	23.3%	6.7%	29.8%
	6	2.8%	3.3%	26.6%	0.0%	9.3%	28.8%	2.5%	16.3%	3.1%	4.0%
	7	1.6%	1.4%	13.5%	0.0%	3.9%	11.9%	7.0%	6.2%	0.9%	5.5%
	8	6.5%	0.0%	1.1%	0.0%	21.4%	1.0%	15.4%	1.9%	2.0%	8.7%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
3-l	Pieces Per Bundle	9	16	12	13	13	11	11	14	14	12
3-m	Pieces Per Sack	24	44	31	19	46	30	38	62	51	32
3-n	Pieces Per Pallet	349	1,518	462	2,073	1,786	-	-	1,892	1,218	783

THE MCGRAW-HILL COMPANIES

Response to Time Warner Inc. at al

Periodical Class Publications

Section	Standard & Poor's	Bond Guide	Corp Desc	Corp Rec	Divid Daily	Divid Weekly	Earning	Industry	Stat Service	Stock Guide	Outlook
1	Frequency	12	12	247	247	50	12	52	12	12	48
3-a	Shape (letter/flat)	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat
3-b	Mailed Pieces	2,009	1,030	649	107	598	264	678	944	4,849	12,288
	Mailed Copies	2,009	1,030	649	107	598	264	678	944	4,849	12,288
3-c	Weight	0.26	1.28	0.19	0.31	0.16	0.18	0.36	0.16	0.30	0.08
3-d	Print Order										
3-f & g	Presort levels										
	Basic Non-Auto	4.7%	67.3%	6.2%	6.7%	7.0%	7.2%	10.5%	7.0%	2.8%	0.3%
	Basic Auto	42.8%	0.0%	75.5%	93.3%	64.2%	89.0%	52.1%	61.1%	26.0%	7.4%
	3 digit non	1.0%	32.1%	0.0%	0.0%	0.0%	0.0%	4.1%	0.8%	1.2%	0.5%
	3 digit auto	49.0%	0.0%	18.3%	0.0%	24.9%	3.8%	26.1%	30.2%	65.5%	64.4%
	5 digit non	0.0%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	5 digit auto	2.4%	0.0%	0.0%	0.0%	3.9%	0.0%	7.2%	0.9%	4.4%	27.3%
	Carrier Route	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
3-h	Per-Piece Discount , based on pieces										
	DDU	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	DSCF	4.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.3%	1.1%
	DADC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
3-i	Palletized percent	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
3-j	Edit Content	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
3-k	Ad entry zones, based on copies										
	DDU	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	DSCF	4.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.3%	1.1%
	DADC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	1&2	17.0%	20.3%	19.6%	36.6%	24.5%	26.2%	29.6%	21.1%	16.6%	21.2%
	3	8.8%	11.5%	7.4%	23.3%	18.1%	8.7%	14.7%	9.6%	9.3%	13.6%
	4	15.2%	22.0%	17.1%	10.0%	15.3%	11.7%	26.9%	16.5%	13.4%	14.3%
	5	21.1%	19.7%	20.0%	15.0%	18.9%	17.4%	10.6%	21.1%	20.8%	20.9%
	6	15.2%	11.1%	16.0%	6.7%	8.6%	12.9%	5.8%	13.3%	14.6%	12.0%
	7	3.5%	4.2%	5.4%	1.7%	3.7%	4.9%	1.6%	4.2%	4.5%	2.5%
	8	14.8%	11.2%	14.5%	6.7%	10.9%	18.2%	10.8%	14.2%	17.5%	14.4%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
3-l	Pieces Per Bundle	7	8	9	10	11	9	9	9	7	13
3-m	Pieces Per Sack	43	11	12	10	12	9	67	55	42	51
3-n	Pieces Per Pallet	-	-	-	-	-	-	-	-	-	-

THE MCGRAW-HILL COMPANIES

Response to Time Warner Inc. at al

Periodical Class Publications

		Northwest Construction		Data&News News			
		Dodge	Or. / Wa.	West	Intermountain	New Mexico	South Plains
		Weekly		Weekly	Weekly	Semi	Semi
Dodge Weekly Products							
Section							
1	Frequency	52	52		52	104	104
3-a	Shape (letter/flat)	Flat	Flat	Flat	Flat	Flat	Flat
3-b	Mailed Pieces	7,568	737	1,092	1,618	283	60
	Mailed Copies	7,568	737	1,092	1,618	283	60
3-c	Weight	0.56	0.38	0.44	0.27	0.35	0.20
3-d	Print Order						
3-f & g	Presort levels						
	Basic Non-Auto	0.0%	0.0%	0.6%	0.3%	0.0%	0.0%
	Basic Auto	42.3%	8.1%	0.0%	6.7%	8.5%	60.0%
	3 digit non	0.0%	0.4%	5.1%	0.3%	0.0%	0.0%
	3 digit auto	50.0%	56.4%	25.1%	21.9%	45.9%	40.0%
	5 digit non	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%
	5 digit auto	7.3%	34.1%	56.1%	70.8%	45.6%	0.0%
	Carrier Route	<u>0.4%</u>	<u>0.8%</u>	<u>13.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
3-h	Per-Piece Discount , based on pieces						
	DDU	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	DSCF	2.4%	17.0%	0.0%	27.6%	0.0%	0.0%
	DADC	2.9%	0.0%	0.0%	0.0%	0.0%	0.0%
3-i	Palletized percent	0.0%	0.0%	0.0%	16.7%	0.0%	0.0%
3-j	Edit Content	82%	99.0%	86.8%	86.0%	80.4%	70.2%
3-k	Ad entry zones, based on copies						
	DDU	0.0%	0.0%	0.0%	0.0%	0.0%	
	DSCF	2.7%	17.0%	0.0%	27.6%	0.0%	0.0%
	DADC	4.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	1&2	33.9%	72.9%	90.0%	49.5%	0.7%	3.3%
	3	20.6%	6.2%	4.2%	15.6%	0.0%	0.0%
	4	22.6%	1.4%	4.5%	5.7%	1.1%	0.0%
	5	9.3%	1.5%	0.2%	1.1%	96.8%	73.3%
	6	0.8%	0.0%	0.5%	0.0%	1.1%	21.7%
	7	4.8%	0.0%	0.1%	0.1%	0.0%	0.0%
	8	<u>1.3%</u>	<u>1.1%</u>	<u>0.5%</u>	<u>0.4%</u>	<u>0.4%</u>	<u>1.7%</u>
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
3-l	Pieces Per Bundle	11	12	8	11	13	10
3-m	Pieces Per Sack	11	14	13	16	13	10
3-n	Pieces Per Pallet	-	-	-	-	-	-

sacks

THE McGRAW-HILL COMPANIES

Response to Time Warner Inc. at al

Periodical Class Publications

<u>Dodge Regionals</u>		<u>Colorado</u>	<u>Midwest</u>	<u>Louisiana</u>	<u>NYCN</u>	<u>Southeast</u>	<u>Southwest</u>	<u>Texas</u>
<u>Section</u>								
1	Frequency	12	12	12	12	12	12	12
3-a	Shape (letter/flat)	Flat	Flat	Flat	Flat	Flat	Flat	Flat
3-b	Mailed Pieces	5,463	5,796	4,073	6,287	7,754	5,462	5,253
	Mailed Copies	5,793	6,145	4,119	6,667	7,990	5,910	5,352
3-c	Weight	0.63	0.32	0.45	0.56	0.40	0.45	0.45
3-d	Print Order							
3-f & g	Presort levels							
	Basic Non-Auto	1.2%	1.2%	0.3%	1.2%	0.3%	1.5%	0.7%
	Basic Auto	6.0%	4.2%	6.9%	4.9%	4.6%	8.4%	5.1%
	3 digit non	0.9%	1.5%	0.9%	1.7%	1.5%	1.1%	2.1%
	3 digit auto	19.3%	40.4%	30.5%	32.5%	38.8%	26.9%	54.9%
	5 digit non	2.2%	2.1%	1.3%	2.9%	1.7%	1.7%	1.1%
	5 digit auto	55.5%	46.0%	53.1%	49.7%	46.9%	42.1%	35.1%
	Carrier Route	<u>14.9%</u>	<u>4.6%</u>	<u>7.0%</u>	<u>7.1%</u>	<u>6.3%</u>	<u>18.2%</u>	<u>0.9%</u>
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
3-h	Per-Piece Discount , based on pieces							
	DDU	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	DSCF	0.1%	0.1%	0.4%	7.6%	7.8%	0.2%	0.2%
	DADC	1.6%	25.2%	1.1%	15.1%	2.4%	2.9%	24.3%
3-i	Palletized percent	95.0%	99.1%	100.0%	99.2%	100.0%	99.0%	99.9%
3-j	Edit Content	45%	52%	38%	34%	47%	40%	43%
3-k	Ad entry zones, based on copies							
	DDU	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	DSCF	0.1%	0.1%	0.4%	7.3%	7.8%	0.2%	0.2%
	DADC	1.5%	24.1%	1.0%	14.4%	2.4%	2.7%	24.0%
	1&2	81.4%	42.5%	2.1%	61.9%	32.5%	3.6%	15.6%
	3	10.8%	24.2%	24.8%	1.6%	27.2%	2.3%	48.4%
	4	3.5%	6.9%	12.8%	11.8%	29.9%	88.6%	10.9%
	5	1.3%	1.0%	58.8%	1.9%	0.2%	1.2%	0.8%
	6	0.3%	0.2%	0.0%	0.2%	0.0%	0.3%	0.0%
	7	0.4%	0.4%	0.0%	0.4%	0.0%	0.5%	0.0%
	8	<u>0.6%</u>	<u>0.6%</u>	<u>0.0%</u>	<u>0.5%</u>	<u>0.0%</u>	<u>0.6%</u>	<u>0.1%</u>
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
3-l	Pieces Per Bundle	5	6	5	4	6	5	5
3-m	Pieces Per Sack	10	12	11	14	14	11	13
3-n	Pieces Per Pallet	1,554	483	1,130	543	-	945	984

THE MCGRAW-HILL COMPANIES
Response to Time Warner Inc. at al
Periodical Class Publications

Section	Dodge Daily Products	Greensheet	Daily Journal	Daily Pacific	DCN Chicago	Daily Arizona	Daily Balt/Delaware	Daily Baltimore	Daily Buffalo Metro	Daily Buffalo Vicinity	Daily Cincinnati	Daily Connecticut	Daily Detroit	Daily Detroit Central	Daily Eastern MA	Daily Kansas
1	Frequency	251	253	251	251	249	249	249	249	249	249	249	249	249	249	249
3-a	Shape (letter/flat)	Flat	Flat	Flat	Flat	58	12	13	13	30	24	39	29	2	98	8
3-b	Mailed Copies	1,315	942	1,009	190	58	12	13	13	30	24	39	29	2	98	8
3-c	Weight	0.4590	0.1875	0.337	0.2249	0.3207	0.1862	0.1655	0.1034	0.1138	0.1448	0.1448	0.1552	0.1448	0.2069	0.1552
3-d	Print Order															
3-f & g	Presort levels															
	Basic Non-Auto	51%	3.3%	4.9%	33.2%	87.9%	91.7%	100.0%	100.0%	96.7%	100.0%	97.4%	96.6%	50.0%	99.0%	87.5%
	Basic Auto	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	3 digit non	54.1%	31.1%	95.1%	55.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	3 digit auto	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	5 digit non	40.8%	65.6%	0.0%	11.6%	12.1%	8.3%	0.0%	0.0%	3.3%	0.0%	2.6%	3.4%	50.0%	1.0%	12.5%
	5 digit auto	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Carrier Route	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
3-h	Per-Piece Discount , based on pieces															
	DDU	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	DSCF	0.0%	47.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	DADC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
3-i	Palletized percent															
3-j	Edit Content	90%	48.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
3-k	Ad entry zones, based on copies															
	DDU	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	DSCF	0.0%	47.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	DADC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	1&2	93.8%	48.9%	94.4%	97.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	3	0.8%	1.5%	0.9%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	4	4.5%	1.3%	4.3%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	5	0.2%	0.4%	0.1%	0.5%	0.0%	91.7%	100.0%	100.0%	96.7%	0.0%	5.1%	3.4%	0.0%	1.0%	37.5%
	6	0.1%	0.2%	0.0%	1.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	92.3%	0.0%	0.0%	98.0%	50.0%
	7	0.0%	0.6%	0.1%	0.0%	100.0%	8.3%	0.0%	0.0%	3.3%	0.0%	0.0%	0.0%	0.0%	0.0%	12.5%
	8	0.7%	0.0%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
3-l	Pieces Per Bundle	13.5	13.1	10.4	3.6											
3-m	Pieces Per Sack	14.0	13.0	11.6	7.3											
3-n	Pieces Per Pallet	0.0	0.0	0.0	0.0											

Sacking Information for Daily Bulletins by Print location

	Pieces	
	Per Bundle	Per Sack
ADP Jersey, 07305	6	6
ADP Jersey - For Orlando entry	7	7
ADP Cincinnati, 41018	8	8
ADP Dallas, 75050	8	8

THE NEWSPAPER HILL COMP
Response to Time Warner Inc. at
Periodical Class Publications

Section	Dodge Daily Products	Daily										Daily									
		Kansas City	ME/NH/VI	Pittsburgh	Rhode Island	Daily W. Missouri	Washington n/Vic	Daily Western MA	Wichita	Austin	Dallas	Daily Oklahoma	Daily E. Worth	Daily FT. Houston	Daily Louisiana	Daily Mississippi	Daily New Mexico				
1	Frequency	249	249	249	249	249	249	249	249	249	249	249	249	249	249	249	249				
3-a	Shape (letter/flat)																				
3-b	Mailed Pieces	6	48	35	20	3	21	32	11	34	34	13	26	6	34	14	2				
3-c	Mailed Copies	6	48	35	20	3	21	32	11	34	34	13	26	6	34	14	2				
3-d	Weight	0.1241	0.1448	0.1345	0.1241	0.1862	0.1759	0.1034	0.1345	0.1448	0.1345	0.1345	0.1345	0.1448	0.1552	0.1138	0.1862				
3-d	Print Order																				
3-f & g	Presort levels																				
	Basic Non-Auto	100.0%	97.9%	97.1%	95.0%	100.0%	95.2%	96.9%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%				
	Basic Auto	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
	3 digit non	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
	3 digit auto	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
	5 digit non	0.0%	0.0%	2.9%	5.0%	0.0%	4.8%	3.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
	5 digit auto	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
	Carrier Route	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
		100.0%	97.9%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%				
3-h	Per-Piece Discount , based on pieces																				
	DDU	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
	DSCF	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.9%	30.8%	0.0%	0.0%	0.0%	0.0%	0.0%				
	DADC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
3-i	Palletized percent	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
3-j	Edit Content	66.7%	78.6%	76.9%	75.0%	77.8%	82.4%	70.0%	69.2%	71.4%	71.4%	69.2%	71.4%	73.3%	63.6%	72.7%	72.2%				
3-k	Ad entry zones, based on copies																				
	DDU	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
	DSCF	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.9%	30.8%	0.0%	0.0%	0.0%	0.0%	0.0%				
	DADC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
	1&2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	11.8%	46.2%	3.8%	2.9%	0.0%	0.0%	0.0%				
	3	0.0%	0.0%	97.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	82.4%	15.4%	88.5%	16.7%	97.1%	42.9%	0.0%				
	4	100.0%	0.0%	0.0%	0.0%	66.7%	90.5%	0.0%	9.1%	2.9%	0.0%	0.0%	7.7%	0.0%	0.0%	50.0%	77.8%				
	5	0.0%	97.9%	0.0%	95.0%	33.3%	4.8%	96.9%	90.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.1%	50.0%				
	6	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	22.2%				
	7	0.0%	2.1%	2.9%	5.0%	0.0%	4.8%	3.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
	8	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%				
3-l	Pieces Per Bundle																				
3-m	Pieces Per Sack																				
3-n	Pieces Per Pallet																				

Sacking Information for Daily Bulletins I

ADP Jersey, 07305
ADP Jersey - For Orlando entry
ADP Cincinnati, 41018
ADP Dallas, 75050

THE KRAV-HILL COMP
Response to Time Warner Inc. at
 Periodical Class Publications

Dodge Daily Products		Daily New Orleans	Daily NO Engin	Daily NM: W TX	Daily NW & W TX	Daily TX Engin	Daily W Oklahoma	Daily S Boros	Daily Long Island	Daily Manhattan	Daily Nass/Suff	Daily North NJ	Daily Phila House	Daily SO NJ/DE	Daily Westchest er	Daily Broward	Daily Miami	Daily Miami Eng
Section																		
1	Frequency	249	249	249	249	249	249	249	249	249	249	249	249	249	249	249	249	249
3-a	Shape (letter/flat)	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat
3-b	Mailed Pieces	14	1	25	2	32	37	16	24	22	1	26	22	26	21	8	9	3
	Mailed Copies	14	1	25	2	32	37	16	24	22	1	26	22	26	21	8	9	3
3-c	Weight	0.1345	0.1241	0.2069	0.1448	0.2689	0.1759	0.1759	0.1966	0.1759	0.1034	0.2069	0.1448	0.1552	0.1034	0.1034	0.1034	0.1759
3-d	Print Order																	
3-f & g	Presort levels																	
	Basic Non-Auto	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	93.8%	95.8%	95.5%	100.0%	96.2%	95.5%	96.2%	95.2%	100.0%	100.0%	100.0%
	Basic Auto	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	3 digit non	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	3 digit auto	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	5 digit non	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.3%	4.2%	4.5%	0.0%	3.8%	4.5%	3.8%	4.8%	0.0%	0.0%	0.0%
	5 digit auto	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Carrier Route	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
3-h	Per-Piece Discount , based on pieces																	
	DDU	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	DSCF	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	DADC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
3-i	Palletized percent	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
3-j	Edit Content	69.2%	66.7%	75.0%	71.4%	84.6%	76.5%	82.4%	84.2%	85.4%	70.0%	85.0%	78.6%	80.0%	70.0%	70.0%	70.0%	82.4%
3-k	Ad entry zones, based on copies																	
	DDU	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	DSCF	0.0%	0.0%	0.0%	0.0%	3.1%	0.0%	0.0%	4.2%	4.5%	0.0%	11.5%	0.0%	0.0%	4.8%	0.0%	0.0%	0.0%
	DADC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	1&2	0.0%	0.0%	0.0%	0.0%	34.4%	2.7%	93.8%	91.7%	90.9%	100.0%	84.6%	90.9%	96.2%	90.5%	50.0%	44.4%	33.3%
	3	14.3%	0.0%	4.0%	50.0%	56.3%	89.2%	0.0%	0.0%	0.0%	0.0%	0.0%	4.5%	0.0%	0.0%	37.5%	33.3%	33.3%
	4	78.6%	100.0%	92.0%	50.0%	3.1%	5.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	5	7.1%	0.0%	4.0%	0.0%	3.1%	2.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	11.1%	0.0%
	6	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	7	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	8	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.3%	4.2%	4.5%	0.0%	3.8%	4.5%	3.8%	4.8%	12.5%	11.1%	33.3%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
3-l	Pieces Per Bundle																	
3-m	Pieces Per Sack																	
3-n	Pieces Per Pallet																	

Sacking Information for Daily Bulletins I

ADP Jersey, 07305
 ADP Jersey - For Orlando entry
 ADP Cincinnati, 41018
 ADP Dallas, 75050

THE MCGRAW-HILL COMP
Response to Time Warner Inc. at
Periodical Class Publications

Section	Dodge Daily Products	Daily	Daily Palm	Daily WC
		Orlando	Beach	FL
1	Frequency	249	249	249
3-a	Shape (letter/flat)	Flat	Flat	Flat
3-b	Mailed Pieces	8	10	22
	Mailed Copies	8	10	22
3-c	Weight	0.0931	0.1138	0.2379
3-d	Print Order			
3-f & g	Presort levels			
	Basic Non-Auto	100.0%	100.0%	100.0%
	Basic Auto	0.0%	0.0%	0.0%
	3 digit non	0.0%	0.0%	0.0%
	3 digit auto	0.0%	0.0%	0.0%
	5 digit non	0.0%	0.0%	0.0%
	5 digit auto	0.0%	0.0%	0.0%
	Carrier Route	0.0%	0.0%	0.0%
		100.0%	100.0%	100.0%
3-h	Per-Piece Discount , based on pieces			
	DDU	0.0%	0.0%	0.0%
	DSCF	0.0%	0.0%	0.0%
	DADC	0.0%	0.0%	0.0%
3-i	Palletized percent	0.0%	0.0%	0.0%
3-j	Edit Content	66.7%	72.7%	87.0%
3-k	Ad entry zones, based on copies			
	DDU	0.0%	0.0%	0.0%
	DSCF	0.0%	0.0%	0.0%
	DADC	0.0%	0.0%	0.0%
	1&2	75.0%	80.0%	95.5%
	3	12.5%	20.0%	0.0%
	4	0.0%	0.0%	0.0%
	5	0.0%	0.0%	0.0%
	6	0.0%	0.0%	0.0%
	7	0.0%	0.0%	0.0%
	8	12.5%	0.0%	4.5%
		100.0%	100.0%	100.0%
3-l	Pieces Per Bundle			
3-m	Pieces Per Sack			
3-n	Pieces Per Pallet			

Sacking Information for Daily Bulletins I

ADP Jersey, 07305
ADP Jersey - For Orlando entry
ADP Cincinnati, 41018
ADP Dallas, 75050

THE MCGRAW-HILL COMPANIES
RESPONSE TO TW ET AL./MH-3E
Periodical Class Publications

PUBLICATIONS	Printer & Zip 1	Printer & Zip 2	Printer & Zip 3	Printer & Zip 4
<u>Information and Media Services</u>				
Architectural Record	Perry Judds, 22657			
Aviation Week	Perry Judds, 22657	Brown Printing, 60098		
Business & Commercial Aviation	Brown Printing, 56093			
Business Week	Perry Judds, 22657	RR Donnelley, 90502	RR Donnelley, 17601	Quad Graphics, 53027
Engineering News Record	Perry Judds, 22657			
Healthcare Informatics	Brown Printing, 56093			
Overhaul & Maintenance	Publishers Press 40165			
Physicians & Sports Medicine	Brown Printing, 56093			
Postgraduate Medicine	Brown Printing, 56093			
Power	Publishers Press 40165			
<u>Standard & Poor's Publications</u>				
Bond Guide	Precision Marketing, 11215			
Corporation Descriptions	Port Press, 21208			
Corporation Records	CPC - Science Press Div., 17522			
Dividend Record Daily	Jupiter Communications, 06615			
Dividend Record Weekly	Jupiter Communications, 06615			
Earnings Guide	Jupiter Communications, 06615			
Industry Survey	CPC - Science Press Div., 17522			
Statistical Service	CPC - Science Press Div., 17522			
Stock Guide	Bind Rite Services, 07606			
The Outlook	Complete Mailing Service, 11220			
<u>Dodge</u>				
Texas Construction	Publishers Press 40165			
Southeast Construction	Publishers Press 40165			
Midwest Construction	Publishers Press 40165			
Louisiana Construction	Publishers Press 40165			
New York Construction	Publishers Press 40165			
Colorado Construction	Publishers Press 40165			
Southwest Magazine	Publishers Press 40165			
McGraw-Hill Construction Dodge Construction News Weekly	4 locations of ADP: 07305, 41018, 75050 & 90302			
McGraw-Hill Construction Dodge Construction Northwest Construction	IM Media 98424			
McGraw-Hill Construction Dodge Construction News West	Cactus Bindery, 85004			
McGraw-Hill Construction Dodge Intermountain Contractor News weekly	Liberty Press, 84663			
McGraw-Hill Construction Dodge Construction News Weekly Covering New Mexico West Texas Edition	ADP, 90302			
McGraw-Hill Construction Dodge Construction News Weekly Covering South Plains Edition	ADP, 90302			
The Greensheet	Publishers Press, 91202			
Dodge Daily Journal	Barnum Publishing, 80221			
Daily Pacific Builder	Howard Quinn, 94103			
Dodge Construction News - Chicago	Liberty Press, 60503			
Dodge Daily Bulletin Arizona	ADP, 41018			
Dodge Daily Bulletin Baltimore	ADP, 41018			
Dodge Daily Bulletin Baltimore	ADP, 41018			
Dodge Daily Bulletin Buffalo Metro	ADP, 41018			
Dodge Daily Bulletin Buffalo/Vicinity	ADP, 41018			
Dodge Daily Bulletin Cincinnati	ADP, 41018			
Dodge Daily Bulletin Connecticut	ADP, 41018			
Dodge Daily Bulletin Detroit	ADP, 41018			
Dodge Daily Bulletin Detroit Central	ADP, 41018			
Dodge Daily Bulletin Eastern MA	ADP, 41018			
Dodge Daily Bulletin Kansas	ADP, 41018			
Dodge Daily Bulletin Kansas City	ADP, 41018			
Dodge Daily Bulletin ME/NH/VT	ADP, 41018			
Dodge Daily Bulletin Pittsburgh	ADP, 41018			
Dodge Daily Bulletin Rhode Island	ADP, 41018			
Dodge Daily Bulletin W Missouri	ADP, 41018			
Dodge Daily Bulletin Washington/Vic	ADP, 41018			
Dodge Daily Bulletin Western MA	ADP, 41018			
Dodge Daily Bulletin Wichita	ADP, 41018			
Dodge Daily Bulletin Austin/San Antonio	ADP, 75050			
Dodge Daily Bulletin Dallas	ADP, 75050			
Dodge Daily Bulletin E Oklahoma	ADP, 75050			
Dodge Daily Bulletin Fort Worth	ADP, 75050			
Dodge Daily Bulletin Houston	ADP, 75050			
Dodge Daily Bulletin Louisiana	ADP, 75050			
Dodge Daily Bulletin Mississippi	ADP, 75050			
Dodge Daily Bulletin New Mexico	ADP, 75050			
Dodge Daily Bulletin New Orleans	ADP, 75050			
Dodge Daily Bulletin New Orleans Engin	ADP, 75050			
Dodge Daily Bulletin NM: W Tex Ed	ADP, 75050			
Dodge Daily Bulletin NW & W Texas	ADP, 75050			
Dodge Daily Bulletin TX Engineering	ADP, 75050			
Dodge Daily Bulletin W Oklahoma	ADP, 75050			
Dodge Daily Bulletin S Boros	ADP, 07305			
Dodge Daily Bulletin Long Island	ADP, 07305			
Dodge Daily Bulletin Manhattan	ADP, 07305			
Dodge Daily Bulletin Nassau/Suffolk	ADP, 07305			
Dodge Daily Bulletin Northern NJ	ADP, 07305			
Dodge Daily Bulletin Phila Housing	ADP, 07305			
Dodge Daily Bulletin So NJ/DE Housing	ADP, 07305			
Dodge Daily Bulletin Westchester	ADP, 07305			
Dodge Daily Bulletin Broward County	ADP, 07305			
Dodge Daily Bulletin Miami	ADP, 07305			
Dodge Daily Bulletin Miami Engineering	ADP, 07305			
Dodge Daily Bulletin Orlando/Vicinity	ADP, 07305			
Dodge Daily Bulletin Palm Beach	ADP, 07305			
Dodge Daily Bulletin West Central Florida	ADP, 07305			

Response of McGraw-Hill to TW et al./MH – 4 (page 1 of 2)

TW et al./MH-4:

- a. Did McGraw-Hill, any agent of McGraw-Hill, or anyone with whom it is associated, at any time after the filing of Time Warner et al.'s complaint in this docket in January 2004, attempt to estimate the impact of the proposed rates on specific McGraw-Hill publications?

- b. If yes, please:
 - (1) identify the publications for which such an analysis was attempted;
 - (2) describe the method used to perform the analysis; and
 - (3) describe the results obtained.

- c. Please also answer the following for each publication identified in your response to subpart b.
 - (1). Was one or more mail.dat files used in the analysis? If yes, please provide an electronic copy of each mail.dat file used.
 - (2) Was an Access file generated in the process of analyzing the mail.dat information? If yes, please provide an electronic copy of the Access files used.
 - (3) Was an Excel spreadsheet generated in the process of analyzing the mail.dat information? If yes, please provide an electronic copy of the Excel files used.

Response::

- a. Yes

- b.
 - (1) Architectural Record, Aviation Week, Business and Commercial Aviation, Business Week, Engineering News Record, Healthcare Informatics, Overhaul and Maintenance, The Physician and Sports Medicine, Platt's Energy and Business Technology, Postgraduate Medicine, and Power.

Response of McGraw-Hill to TW et al./MH – 4 (page 2 of 2)

(2) The Access database and Excel spreadsheet developed by Time Warner was used. The database was modified to connect directly with our mail.dat archives and create the spreadsheet automatically. The files provided by Time Warner required the mail.dat file to be imported into Access and the results then needed to be copied manually into Excel.

(3) A description is provided in the summary analysis to be produced
Complainants in response to part c.(3) below.

c.

(1) Objection filed.

(2) Yes, but the manner in which the analysis was created resulted only in temporary query output, therefore there are no files to be provided. The Access database, as noted above, was provided by Time Warner.

(3) The Excel files requested, as well as a summary analysis generated, will be produced forthwith to Complainants.

Response of McGraw-Hill to TW et al./MH – 5

TW et al./MH-5: Please provide a table that indicates, for each McGraw-Hill publication that is mailed under Periodicals rates, how fulfillment is performed for that publication – that is the planning of bundles at different presort levels to contain the individual mailed pieces, and of sacks and pallets at different presort levels to contain the individual bundles for a given issue. Specifically, indicate for each such publication which of the following apply:

- a. fulfillment is performed manually, without any aid of a computer;
- b. it is performed using a computer program or methodology developed specifically for that publication;
- c. it is performed using a commercially available computer software program;
- d. the program used for fulfillment has the capability to count the number of bundles, sacks and pallets produced by a given mailing;
- e. the program used for fulfillment contains various optional parameters whose setting affects the number of bundles, sacks and pallets produced by a given mailing;
- f. the printer, rather than the individual publication or its owner, assumes responsibility for the fulfillment function, after the publisher provides a list of addresses to which the publication is to be mailed;
- g. mail.dat files are generated for each issue.

Response:

See attachment "TW-MH-5.xls" hereto.

THE MCGRAW-HILL COMPANIES
RESPONSE TO TW et al./MH5

"Y" indicates confirmation

PUBLICATIONS	Abbreviation	5a	5b	5c	5d	5e	5f	5g
Information and Media Services								
Architectural Record	ARC			Y	Y	Y		Y
Aviation Week	AVW			Y	Y	Y		Y
Business & Commercial Aviation	BCA			Y	Y	Y		Y
Business Week	BWNA			Y	Y	Y		Y
Engineering News Record	ENR			Y	Y	Y		Y
Healthcare Informatics	HCI			Y	Y	Y		Y
Overhaul & Maintenance	OMT			Y	Y	Y		Y
Physicians & Sports Medicine	PSM						Y	Y
Postgraduate Medicine	PGM						Y	Y
Power	PWO			Y	Y	Y		Y
Standard & Poor's Publications								
Bond Guide	Bond Guide						Y	
Corporation Descriptions	Corp Desc						Y	
Corporation Records	Corp Rec						Y	
Dividend Record Daily	Divid Daily						Y	
Dividend Record Weekly	Divid Weekly						Y	
Earnings Guide	Earning						Y	
Industry Survey	Industry						Y	
Statistical Service	Stat Service						Y	
Stock Guide	Stock Guide						Y	
The Outlook	Outlook						Y	
Dodge								
Texas Construction	Texas						Y	
Southeast Construction	Southeast						Y	
Midwest Construction	Midwest						Y	
Louisiana Construction	Louisiana						Y	
New York Construction	NYCN						Y	
Colorado Construction	Colorado						Y	
Southwest Magazine	Southwest						Y	
McGraw-Hill Construction Dodge Construction News Weekly	Dodge Weekly			Y	Y	Y		
McGraw-Hill Construction Dodge Construction Northwest Construction	Northwest Weekly						Y	
McGraw-Hill Construction Dodge Construction News West	West Weekly						Y	
McGraw-Hill Construction Dodge Intermountain Contractor News weekly	Intermountain Weekly						Y	
McGraw-Hill Construction Dodge Construction News Weekly Covering New Mexico West Texas Edition	New Mexico Semi						Y	
McGraw-Hill Construction Dodge Construction News Weekly Covering South Plains Edition	South Plains Semi						Y	
The Greensheet	Greensheet						Y	
Dodge Daily Journal	Daily Journal						Y	
Dodge Daily Pacific Builder	Daily Pacific						Y	
Dodge Construction News - Chicago	DCN Chicago						Y	
Dodge Daily Bulletin Arizona	Daily Arizona			Y	Y	Y		
Dodge Daily Bulletin Balti/Delaware	Daily Balti/Delaware			Y	Y	Y		
Dodge Daily Bulletin Baltimore	Daily Baltimore			Y	Y	Y		
Dodge Daily Bulletin Buffalo Metro	Daily Buffalo Metro			Y	Y	Y		
Dodge Daily Bulletin Buffalo/Vicinity	Daily Buffalo /Vicinity			Y	Y	Y		
Dodge Daily Bulletin Cincinnati	Daily Cincinnati			Y	Y	Y		
Dodge Daily Bulletin Connecticut	Daily Connecticut			Y	Y	Y		
Dodge Daily Bulletin Detroit	Daily Detroit			Y	Y	Y		
Dodge Daily Bulletin Detroit Central	Daily Detroit Central			Y	Y	Y		
Dodge Daily Bulletin Eastern MA	Daily Eastern MA			Y	Y	Y		
Dodge Daily Bulletin Kansas	Daily Kansas			Y	Y	Y		
Dodge Daily Bulletin Kansas City	Daily Kansas City			Y	Y	Y		
Dodge Daily Bulletin ME/NH/VT	Daily ME/NH/VT			Y	Y	Y		
Dodge Daily Bulletin Pittsburgh	Daily Pittsburgh			Y	Y	Y		
Dodge Daily Bulletin Rhode Island	Daily Rhode Island			Y	Y	Y		
Dodge Daily Bulletin W Missouri	Daily W Missouri			Y	Y	Y		
Dodge Daily Bulletin Washington/Vic	Daily Washington/Vic			Y	Y	Y		
Dodge Daily Bulletin Western MA	Daily Western MA			Y	Y	Y		
Dodge Daily Bulletin Wichita	Daily Wichita			Y	Y	Y		
Dodge Daily Bulletin Austin/San Antonio	Daily Austin			Y	Y	Y		
Dodge Daily Bulletin Dallas	Daily Dallas			Y	Y	Y		
Dodge Daily Bulletin E Oklahoma	Daily E Oklahoma			Y	Y	Y		
Dodge Daily Bulletin Fort Worth	Daily FT Worth			Y	Y	Y		
Dodge Daily Bulletin Houston	Daily Houston			Y	Y	Y		
Dodge Daily Bulletin Louisiana	Daily Louisiana			Y	Y	Y		
Dodge Daily Bulletin Mississippi	Daily Mississippi			Y	Y	Y		
Dodge Daily Bulletin New Mexico	Daily New Mexico			Y	Y	Y		
Dodge Daily Bulletin New Orleans	Daily New Orleans			Y	Y	Y		
Dodge Daily Bulletin New Orleans Engin	Daily NO Engin			Y	Y	Y		
Dodge Daily Bulletin NM: W Tex Ed	Daily NM: W TX			Y	Y	Y		
Dodge Daily Bulletin NW & W Texas	Daily NW & W TX			Y	Y	Y		
Dodge Daily Bulletin TX Engineering	Daily TX Engin			Y	Y	Y		
Dodge Daily Bulletin W Oklahoma	Daily W Oklahoma			Y	Y	Y		
Dodge Daily Bulletin 5 Boros	Daily 5 Boros			Y	Y	Y		
Dodge Daily Bulletin Long Island	Daily Long Island			Y	Y	Y		
Dodge Daily Bulletin Manhattan	Daily Manhattan			Y	Y	Y		
Dodge Daily Bulletin Nassau/Suffolk	Daily Nass/Suff			Y	Y	Y		
Dodge Daily Bulletin Northern NJ	Daily North NJ			Y	Y	Y		
Dodge Daily Bulletin Phila Housing	Daily Phila House			Y	Y	Y		
Dodge Daily Bulletin So NJ/DE Housing	Daily SO NJ/DE			Y	Y	Y		
Dodge Daily Bulletin Westchester	Daily Westchester			Y	Y	Y		
Dodge Daily Bulletin Broward County	Daily Broward			Y	Y	Y		
Dodge Daily Bulletin Miami	Daily Miami			Y	Y	Y		
Dodge Daily Bulletin Miami Engineering	Daily Miami Eng			Y	Y	Y		
Dodge Daily Bulletin Orlando/Vicinity	Daily Orlando			Y	Y	Y		
Dodge Daily Bulletin Palm Beach	Daily Palm Beach			Y	Y	Y		
Dodge Daily Bulletin West Central Florida	Daily WC FL			Y	Y	Y		

Response of McGraw-Hill to TW et al./MH – 7**TW et al./MH-7:**

- a. Please estimate as closely as possible the number of McGraw-Hill publications that currently participate in: (1) a co-mailing program; or (2) a co-palletization program.
- b. Additionally, please identify those publications and for each such publication state:
 - (1) where it is being co-mailed or co-palletized;
 - (2) whether, if it is co-palletized, it is also being co-mailed;
 - (3) whether it is also part of a pool shipment program arranged by a printer or consolidator.

Response:

- a. Seven Dodge regional construction publications participate in a co-palletization program.
- b.
 - (1) Publisher's Press
 - (2) Co-palletization only.
 - (3) They are also part of a pool shipment program arranged by Publisher's Press.

Response of McGraw-Hill to TW et al./MH –8

TW et al./MH-8:

- a. For each McGraw-Hill publication that currently is distributed by the Postal Service under Outside County Periodicals rates, and for which at least a portion of the volume is entered into the postal system in sacks, please state whether or not the publication sometimes enters 5-digit or 3-digit sacks that contain six or fewer pieces.
- b. If this occurs, then provide, for a typical issue, estimates of:
 - (1) the number of 5-digit sacks with respectively one, two, three, four, five and six pieces; and
 - (2) the number of 3-digit sacks with respectively one, two, three, four, five and six pieces.

Response::

a. The question, as asked, is very broad. As a practice, McGraw-Hill does not make three and five digit sacks with six or fewer pieces. The only exceptions are Business Week, The Standard and Poor's Publications and Architectural Record which have six piece minimums, and Dodge Daily Bulletins and Dodge Construction News Weeklies which make a limited number of skin sacks in addition to six piece minimums.

b. (1) and (2)

An analysis was run for all titles for which we generate mail.dat files, regardless of what minimums are set. In the case of Dodge and S&P, individual qualification reports were reviewed. The results are contained in the attached spreadsheet "TW-MH8b_Response."

THE MCGRAW-HILL COMPANIES

Response to Time Warner Inc. at al

Periodical Class Publications

Publications	Pieces	Number of 5 Digit sacks that contain the following pieces						Number of 3 Digit sacks that contain the following pieces					
		1	2	3	4	5	6	1	2	3	4	5	6
Dodge Daily Bulletins													
ADP Jersey, 07305							1			4	3	1	
ADP Jersey - For Orlando										1		1	
ADP Cincinnati, 41018					3		1				7	4	5
ADP Dallas, 75050					2	1					2	5	3
Dodge Weekly					3	1	25		1		4	5	48
Intermountain Weekly							16						3
West Weekly							12						2
Daily Journal							8						
Greensheet							12						8
DCN Chicago		2	1	7	6	2	2						2
Daily Pacific							7						
South Plains Semi							1						2
New Mexico Semi							4						2
S&P The Outlook							12						4
Dividend Record Daily													1
Dividend Record Weekly							1						2
Corporation Description							1						11
Corporation Records													2
Architectural Record													10
Totals		2	1	7	14	4	103	0	1	5	16	16	105

Response of McGraw-Hill to TW et al./MH –9

TW et al./MH-9:

- a. For each McGraw-Hill publication, if any, where in response to the preceding interrogatory you indicated that at least some 5-digit or 3-digit sacks with six or fewer pieces are entered into the postal system, please explain all reasons for this practice. If one such reason is the desire to assure faster delivery, please describe and provide references to all studies you are aware of, by McGraw-Hill or other parties, that demonstrate that the practice leads to faster delivery than if the pieces were entered in containers with more pieces but lower presort.
- b. Additionally, please describe whether, and if so how, McGraw-Hill would be likely to change its current practice regarding sacks with six or fewer pieces, if the alternative rates proposed in Time Warner et al.'s complaint were to take effect.

Response::

- a. Business Week and Architectural Record are primarily palletized. Any volume falling to sacks is largely due to advertising that split an SCF or ADC. The sack minimum is set at six to preserve service for these copies if that situation occurs. As observed in response to TW et al./MH-8b, a typical issue may not have any five or three digit sacks with six or fewer pieces. The Dodge Dailies and Dodge Weeklies use these sacks either because the entire subscriber base is six or fewer or for service. Standard and Poor's uses these sacks due to their small file size. McGraw-Hill is not aware of any study that demonstrates the service variation between types of sacks.
- b. Please see the response to TW et al./MH-15.

Response of McGraw-Hill to TW et al./MH – 10 (page 1 of 2)

TW et al./MH-10:

- a. Please confirm that on the Aviation Week website, as of July 22, 2004, the yearly subscription price for Aviation Daily was given as follows:

Available Formats	Price Each
Email: Text/ASCII	\$1,785
Email: PDF	\$1,785
Print: U.S. Delivery	\$1,785
Print: Non U.S. Delivery	\$1,985

Response: Confirmed

- b. Additionally, please answer the following:

- (1) For each of the four formats indicated in the table, how many Aviation Daily subscribers currently receive the publication in that format?

Response: For 2004 Print 28% and Electronic 72%

- (2) For each format, what is the average marginal annual cost of serving one additional subscriber using that format?

Response: Text/ASCII or PDF \$0.00; US Delivery \$169.46; Non-US Delivery \$231.29.

- (3) Where are the printed copies printed? If in more than one location, please indicate all such locations.

Response: Blaze Digital Printing, 140 Mount Holly Bypass, Lumberton, NJ 08040

- (4) Are the printed copies for U.S. delivery delivered by the Postal Service under Periodicals rates? If not, how are they delivered? If yes, are they entered at the originating post office? If they are not entered at the originating post office, please describe the degree to which they are transported closer to the DDU, whether airlift is used, etc.

Response: The copies are delivered by the USPS as First Class Mail

- (5) What is the average delay in delivery for the printed copies delivered in the U.S. relative to those that are e-mailed?

Response: One to two days

Response of McGraw-Hill to TW et al./MH – 10 (page 2 of 2)

- (6) Are the printed copies delivered as letters or as flats?

Response: Letters

- (7) Can some of Aviation Daily's editorial content be accessed on a web site? If yes, who is allowed such access?

Response: Aviation Daily editorial content can be accessed on-line by subscribers.

- (8) Can all of Aviation Daily's editorial content be accessed on a web site? If yes, who is allowed such access?

Response: All editorial content from the present issue and issues from the preceding three months can be accessed by subscribers.

Response of McGraw-Hill to TW et al./MH – 11 (page 1 of 2)

TW et al./MH-11

- a. Please confirm that the publication called Homeland Security and Defense, described on the Aviation Week website, is a weekly publication. If not confirmed please explain.

Response: Confirmed

- b. Please confirm also that the annual subscription price shown on the website, as of July 22, 2004, was \$649, regardless of whether it is (i) emailed in Text/ASCII format; (ii) emailed in pdf format; (iii) printed and delivered in the U.S.; or (iv) printed and delivered outside the U.S.

Response: Confirmed

- c. Additionally, please answer the following:

- (1) How many Homeland Security and Defense subscribers currently receive each of the four formats indicated in part b above?

Response: For 2004 in Print 45% and Electronic 55%

- (2) For each of the formats indicated, what is the average marginal annual cost of serving one additional subscriber using that format?

Response: Text \$0.00; PDF \$0.00; US Delivery \$46.80; Non-US Delivery \$56.16

- (3) Where are the printed copies printed? If in more than one location, please indicate all such locations.

Response: Blaze Digital Printing, 140 Mount Holly Bypass, Lumberton, NJ 08048

- (4) Are the printed copies for U.S. delivery delivered by the Postal Service under Periodicals rates? If not, how are they delivered? If yes, are they entered at the originating post office? If they are not entered at the originating post office, please describe the degree to which they are transported closer to the DDU, whether airlift is used, etc.

Response: The copies are delivered by the USPS as First Class Mail

- (5) What is the average delay in delivery for the printed copies delivered in the U.S. relative to those that are e-mailed?

Response: One to two days

Response of McGraw-Hill to TW et al./MH – 11 (page 2 of 2)

- (6) Are the printed copies delivered as letters or as flats?

Response: Letters

- (7) Can some of Homeland Security and Defense's editorial content be accessed on a web site? If yes, who is allowed such access?

Response: Homeland Security and Defense's editorial content can be accessed on-line by subscribers.

- (8) Can all of Homeland Security and Defense's editorial content be accessed on a web site? If yes, who is allowed such access?

Response: All of Homeland Security and Defense's editorial content can be accessed on-line by subscribers.

Response of McGraw-Hill to TW et al./MH – 12 (PAGE 1 OF 2)**TW et al./MH-12**

- a. Please confirm that the publication called Inside Energy, described on the Platts website, is a weekly publication. If not confirmed, please explain.

Response: Confirmed

- b. Please confirm also that, as of July 22, 2004, the annual subscription price shown on the website was \$1,760 for the print version and \$1,460 for the web version.

Response: Confirmed. The \$1760 print version is enhanced with a back issues search component. The \$1460 web version is the basic editorial product.

- c. Please confirm also that the “web version” consists of access to a PDF file, and that subscribers to the web version also receive a daily supplement called “Inside EnergyExtra” for free. If not confirmed, please explain.

Response: Confirmed

- d. Additionally, please answer the following:

- (1) How many subscribers to Inside Energy receive the printed and how many receive the web version?

Response:

There is no definitive answer to this question. Inside Energy is accessible through site licenses and thus it is difficult to provide definitive numbers. Stating that, Platts is moving in short order to solely delivering Inside Energy electronically.

McGraw-Hill's Response to TW et al./MH – 12**(page 2 of 2)**

- (2) Does the printed version contain any information that the web version does not? If yes, what if any portion of the printed editorial content is lacking from the web version?

Response: No

- (3) Where are the printed copies printed? If in more than one location, please indicate all such locations.

Response: ADP, Jersey City, New Jersey

- (4) Are the printed copies for U.S. delivery delivered by the Postal Service under Periodicals rates? If not, how are they delivered? If yes, are they entered at the originating post office? If they are not entered at the originating post office, please describe the degree to which they are transported closer to the DDU, whether airlift is used, etc.

Response: The print version of Inside Energy is mailed First Class and entered at origin.

- (5) What is the average delay in delivery for the printed copies delivered in the U.S. relative to the time the web version becomes available to subscribers?

Response: One to two days

- (6) Are the printed copies delivered as letters or as flats?

Response: Flats

- (7) What is the average annual marginal cost (including postage, transportation and printing costs) of serving one additional subscriber to the printed version?

Response: US Delivery \$57.72; Non-US Delivery \$114.92

- (8) What is the average annual marginal cost (including postage, transportation and printing costs) of serving one additional subscriber to the web version?

Response: \$0.00

Response of McGraw-Hill to TW et al. – 13

TW et al./MH-13: Is electronic delivery currently offered as an alternative to hardcopy delivery for Aviation Week? If no, please explain why not, and state whether there are plans to offer an electronic delivery option in the future. If yes, in what format is it offered?

Response: Electronic delivery of Aviation Week is not currently available nor planned. Having said this, subscribers have access to the current issue and three previous issues online through AWST online or the Aviation Week Intelligence Network (a portal with access to most Aviation Week Group publications).

Response of McGraw-Hill to TW et al./MH – 14

TW et al./MH-14: Please confirm that electronic delivery of Business Week currently is available, in a format that can be read with the aid of the free Zinio reader. Additionally, please estimate the number of subscribers that currently receive Business Week in electronic form.

Response:

Confirmed. Objection filed to question set forth in the second sentence.

Response of McGraw-Hill to TW et al./MH – 15

TW et al./MH-15: Assume that the rates proposed in the Time Warner Inc. et al. complaint were to take effect. Please explain how McGraw-Hill would, in the near and long term, modify mailing practices for its different publications in response to such a change.

Response:

The management of mailing practices for McGraw-Hill is a continuous improvement process that considers a number of variables. Delivery requirements, shipping cost, manufacturing location and physical characteristics all may affect a given supply chain. If any of these inputs are changed, the effect on the others must be carefully evaluated. While the question has been framed with regard to a reaction to the Time Warner Inc. complaint, McGraw-Hill will react to it in a manner similar to any change in the profile of a supply chain. We will analyze how it affects all of the components of a given supply chain and then determine how individual aspects of that chain should be modified to optimize it given the new variable. The extent of any change to a part of the process will depend directly upon its value in the overall process.

National Newspaper Association

**R. Douglas Crews
(NNA-T-2)**

TW et al./NNA-T2-1. You discuss in some detail various possible negative consequences for Cameron Citizen Observer.

- a. Did you try to estimate precisely how much the Citizen Observer's postage bill would change if the proposed rates were to take effect?
- b. Did you try to analyze ways that the Observer might adjust to a new set of rates by changing its mailing practices, for example by placing more mail pieces in each sack and thereby using fewer sacks?
- c. In the paragraph that begins at the bottom of page 7 you discuss the impact a sack charge might have on the Cameron Citizen Observer. In reaching your conclusions, did you consider the possibility that the added sack charge might be offset by reduced charges for pieces and pounds?
- d. At page 10 you discuss the possible impact on seven subscribers who reside in Zone 7 and suggest that their subscription rate might have to be raised by \$20 per year. Assume that the postage for mailing to those seven subscribers really were to increase by \$20 per year but at the same time the postage for mailing to subscribers who live locally were to decline, leaving the overall postage bill the same as before. Do you believe that the paper then would still raise the subscription rate for the seven subscribers in Zone 7? Please explain your answer.

RESPONSE:

- a. No. My goal was to examine the negative effect upon some of the newspaper's subscribers, not of the newspaper overall, a much more complex task that defeated even NNA's leading postal expert Max Heath, who is also a witness in this case.
- b. No.
- c. No, but looking at the pieces most affected by the sack charges, I *would assume the savings for the pieces and pounds associated with these pieces would have to be pretty dramatic to make any difference.*
- d. Most small newspapers consider the pieces mailed to distant subscribers to be primarily a service. These readers are not significant to local advertisers. But they are important to the newspaper's mission of being a primary information provider for its area. And many local newspapers are the sole source of news for former residents. So they try to do what they can. But most of them charge an out of town subscription rate, so they can pass on all or most of the extra postage charge incurred by serving these readers. I would expect most of our publishers to continue that policy, regardless of what happens to the rest of their postage bills.

TW et al./NNA-T2-2. Referring again to the seven subscribers who reside in Zone 7:

- a. How many, if any of the seven are "snowbirds," and how many reside in Zone 7 permanently?
- b. You make the assumption (at p. 10, lines 6-7) that one ADC sack would contain the copies for all seven subscribers. Have you verified that they in fact live in the same ADC area? If they do not, over how many different service areas are the seven spread? If you don't know, please provide the three-digit ZIP code area in which each of the seven resides.
- c. Assume that rather than being entered in an ADC sack the seven copies were entered in a Mixed ADC sack. Please confirm that the per-copy sack charge in that case would be about 22 cents per copy, rather than 46 cents.
- d. How many subscribers reside permanently in each of Zones 6, 5, 4 and 3?
- e. What would be the per-copy sack charge for out-of-state copies if all of them, including the seven to Zone 7, were to share the same Mixed ADC sack, or (if that would exceed the Postal Service's maximum limit on sack weight) if they were placed in as few MADC sacks as possible? Please explain your answer.

RESPONSE:

- a. I do not know. The newspaper circulation office believes most of these are actually permanent residents in that area, but it is possible some are snowbirds
- b. I have not. I used the example for purposes of illustration only. It is certainly possible that these subscribers would be found in one ADC, but probably not very likely in this case. The newspaper was not able to match the pieces from Zone 7 with subscribers' names and addresses because its mailing report and subscriber programs are on separate platforms and do not interact. The circulation office, however, observes that Zone 7 subscribers would probably be northern California residents
- c. Yes, it would be a \$1.55 sack charge under this proposal, divided by 7 copies.
- d. I did not examine those zones for purposes of my testimony, but the publisher reports to me that for the period I was considering the paper had the following in the zones you request.

Zone 3: 22 pieces

Zone 4: 14 pieces

Zone 5: 15 pieces

Zone 6: 10 pieces

Zone 7: 7 pieces

I do not know whether they are permanent residents in those zones. The snowbirds are most likely to be found in Zones 5 and 6, I believe, which would cover warm climates in Texas and Arizona.

- e. The cost would be 2.2 cents if all retained their subscriptions. However, experience would suggest the service would be so slow and unpredictable that the publisher would not likely be able to retain those subscribers. Most likely, then, the cost would be zero, as that mail would cease to exist.

TW et al./NNA-T2-3. You discuss at length the need for the Cameron Citizen Observer to hold on to the subscribers who become “snowbirds” during part of the year.

- a. In a typical year, how many in-county and how many outside county subscribers turn into snowbirds?
- b. For how many weeks on the average is a “snowbird” gone from home?
- c. What are the most common destinations for the “snowbird” subscribers to this newspaper? Are there clusters where (sic) several of them live in the same 5-digit ZIP code, or in the same 3-digit ZIP code? Please explain as fully as possible.

RESPONSE:

- a. I asked the circulation manager to estimate from personal experience, since the newspaper was unable to retrieve that information from computer records. The answer was: approximately 20 residents, primarily from within the county.
- b. From our area, most leave Missouri between Thanksgiving and Christmas and return around the first of April.
- c. *Arizona and Texas are popular destinations, with a few maybe to Florida, and possibly some areas in Arkansas. The newspaper believes that the only area that might attract clusters that could be aggregated by zip code would be in the Phoenix area in the 853 or 852*

3 digit zip code. But it was unable to retrieve actual subscriber records to test that theory.

TW et al./NNA-T2-4. Please provide the following additional information about the Cameron Citizen Observer.

- a. What is the weight of a typical copy, and how much does it vary from issue to issue?
- b. Please describe the format of the paper. Is it a tabloid? What are the dimensions before the paper is folded? How many ways is it folded before it is mailed? Are copies wrapped in paper, polywrap or other protective material?
- c. What percent of the copies are pre-barcoded?
- d. Of the 384 outside county copies, how many go to the three other counties in the four-county area? How many are local to the Cameron post office? .
- e. How many of the 384 outside county copies go outside the four counties but stay in the St. Joseph/Kansas City area?
- . How many of the 384 outside county copies go outside the four counties but stay within postal Zones 1&2, i.e., within 150 miles of the originating office?
- g. What is the average percent editorial content? Please provide an estimate even if you do not know the precise number.

RESPONSE:

- a. About 4.6 ounces without much variation.
- b. It is a broadsheet, measuring 13 x 22 inches. It is half folded for mailing and not wrapped.
- c. None.
- d. To respond to this question, I asked the newspaper to examine its most recent USPS qualification report, as the report used to help in my analysis in previous weeks was no longer available to the circulation director. It showed a slight reduction in outside county copies for a total of 364 copies.

18 go to Gallatin in Daviess county, 12, to Maysville in DeKalb county; 20 to Hamilton in Caldwell county. Some of the copies in the Cameron post office also go outside the county, as the newspaper sits on a county line, but I was unable to determine what percentage did so. The newspaper reports that 43 go to Cameron 64429.

- e. See my response to part a. above for the total of 364 copies. Of those, the following pieces total 79 to these areas:

Weatherby 10

St Joseph 4

Liberty 13

St. Joe SCF 24

Kansas City 20

SCF Kansas City 18

- f. The newspaper reports that 296 copies remain within Zones 1 and 2
- g. About 50%

TW et al./NNA-T2-5. You indicate that the copies of the Observer that are not local to Cameron travel to St. Joseph in 5-digit, 3-digit, ADC and mixed ADC sacks.

- a. Consider a typical mailing in a season when most of the “snowbirds” are gone.
 1. How many 5-digit sacks are sent to St. Joseph, and what is the average number of copies in those sacks? How many of those sacks travel outside the St. Joseph/Kansas City area?
 2. How many 3-digit sacks are sent to St. Joseph, what is the average number of copies per sack, and how many of those sacks travel outside the St. Joseph,/Kansas City area?
 3. How many ADC sacks are sent to St. Joseph, what is the average number of copies in those sacks, and how many of them are to outside the St. Joseph/Kansas City area?
 4. How many Mixed ADC sacks are sent to St. Joseph and what is the average number of copies in those sacks?
- b. Please answer the four questions in part a above for a typical mailing in a season when most of the “snowbirds” are home.

RESPONSE:

- a. I was unable to obtain a detailed report from a snowbird season, but have information for a regular mailing below.
- b. I looked at a typical recent mailing during a regular non-snowbird week in September.
 1. The following are 5 digit sacks, with their piece counts:

Osborn: 3 pieces

Gallatin:	5 pieces
Lathrop:	6 pieces
Plattsburg:	12 pieces
Maysville:	19 pieces
Hamilton:	10 pieces
Cameron:	3 pieces and 2 pieces (2 sacks)
Chillicothe:	8 pieces
Kearney:	6 pieces
Gladstone:	6 pieces

All of those destinations are within the Kansas City/St Joseph area.

2. The following are 3 digit sacks:

644 sack:	6 pieces
662 sack:	9 pieces
646 sack:	11 pieces
640 sacks:	15 pieces and 8 pieces (2 sacks)
641 sacks:	15 pieces
645 sacks:	7 pieces

All of those 3 digit ZIP codes are for areas within greater Kansas City or St. Joseph, with the exception of Chillicothe.

3. The following are ADC sacks:

Area Dist Ctr 54240 8 pieces

Area Dist Ctr A630 10 pieces

Area Dist Ctr 64240 20 pieces

Area Dist Ctr 64240 6 pieces

The first two sacks appear to be destinating outside of the St. Joseph/Kansas City area: one to the St. Louis area and one to Wisconsin.

4. There were 9 mixed ADC sacks, with an average of 9 pieces.

TW et al./NNA-T2-6 How many post offices at which mail could be entered are there in the four-county area served by the Citizen Observer? Please indicate the ZIP code for each such post office.

RESPONSE:

The newspaper could potentially enter mail also in Gallatin, 64429, and Hamilton, 64644.

TW et al./NNA-T2-7 You describe a situation where the Atchison County Mail is entered in tubs rather than in sacks.

- a. Is the Atchison County Mail a weekly newspaper? If no, what is it?
- b. Please indicate the total mailed outside county circulation, average weight per copy, average percent editorial content and format (e.g., whether a tabloid, dimension when unfolded, number of times folded before mailed, etc.) for the Atchison County Mail.
- c. How many copies of the Atchison County Mail are mailed out of state: (1) during snowbird season; and (2) when most snowbirds are home?
- d. When Mr. Farmer enters his out-of state copies in tubs, does he presort the copies into different tubs according to where they are going (e.g., to a specified ADC) and label the tubs accordingly, or does he just put all the out-of-state copies in the same tub (or several tubs if they don't fit in one)? Does he put presorted bundles into the tubs or just individual copies?
- e. What is the sectional center facility (SCF) or processing plant to which the tubs with out-of-state mail are taken after Mr. Farmer has entered the tubs at the Rock Port post office?
- f. Is it your impression that the tub(s) with Mr. Farmer's out-of-state copies are emptied when they get to the SCF/processing center identified in part e above? If not, what, according to your understanding, is done with the tubs?

RESPONSE:

- a. It is a weekly newspaper.
- b. Total outside county mail was 371 copies for the week I considered, with an average weight of .17 pounds, an average editorial content at about 50%. It is a 13 x 11 inches page tabloid and is folded once for mailing.
- c. About 220 when snowbirds are gone and 200 when they are at home.
- d. He uses three tubs: two to St. Joseph and one to mixed states. He does not use presorted bundles.
- e. Mr. Farmer believes they go to Kansas City Kansas, although he was not certain.
- f. He assumes the tubs are emptied and worked in Kansas City, KS.

TW et al./NNA-T2-8 Please refer to your response to TW et al./NNA-T2-5, in which you provide a detailed breakdown of the numbers of sacks with different presort levels and destinations that are used to mail the Cameron Citizen Observer.

- a. You indicate that there are nine mixed ADC sacks, with an average of nine pieces per sack. Please state whether you believe, and whether the editors of the Observer believe, that entering nine pieces each in nine mixed ADC sacks will cause faster delivery than entering 81 pieces in one mixed ADC sack. If you so believe, please state what the belief is based on.
- b. Would you agree that a mixed ADC sack, when examined only from the outside, could contain mail to anywhere in the US, and that one cannot determine where its contents might be going without opening the sack and examining them? Please explain any disagreement.
- c. If all mixed ADC sacks are dumped on a belt for further processing at the ADC/SCF to which the sacks are taken, does it then not follow that whether the 81 pieces are in one such sack or divided among nine sacks, they will be dumped on the same belt and handled the same way from there on? Please explain any disagreement.
- d. Please assume that the proposed rates were to go into effect, with a per-sack charge of \$1.53 for each mixed ADC sack. Do you believe it is likely that the Cameron Citizens Observer copies that currently are entered each week in nine different mixed ADC sacks, would soon be entered in only one mixed ADC sack? If no, please explain.

RESPONSES:

- a. no.

b. yes

c. yes

d. yes

TW et al./NNA-T2-9 Please refer to your responses to TW et al./NNA-T2-5 and TW et al./NNA-T2-2.

- a. From the detailed breakdown that you provide of sack presort levels and destinations, it would appear that copies to the seven Zone 7 subscribers are among the copies that do get mailed in mixed ADC sacks. Please confirm that it is so. If not confirmed, please explain what types of sacks those copies are mailed in.
- b. In your response to TW et al./NNA-T2-2e you indicate, in response to a question about whether mail to the seven Zone 7 subscribers could be placed in a mixed ADC sack, that:

“experience would suggest the service would be so slow and unpredictable that the publisher would not likely be able to retain those subscribers. Most likely, then, the cost would be zero, as that mail would cease to exist.”

Given that it appears that these copies in fact already are entered in mixed ADC sacks, please explain whether your concern about adverse service consequences refers to the possibility that they might be entered along with many other copies in the same sack, and if not, what precisely it is that makes you conclude service would be any worse than it is today.

RESPONSES:

- A. Yes, they appear to be in those sacks.
- B. The publisher’s circulation specialist advised that these sortations were originally set up by state, to try to achieve the most direct transportation route and downstream processing as possible.

TW et al./NNA-T2-10

Please refer to your response to TW et al./NNA-T2-5.

- a. You indicate that two 3-digit sacks are sent to ZIP code area 640, one with 15 pieces and one with eight pieces. Please explain the rationale for using two sacks rather than one and describe any service benefits expected to result from this practice.
- b. You indicate that two 5-digit sacks are prepared for Cameron, one with three pieces and one with two pieces. Please explain the rationale for using two sacks rather than one and describe any service benefits expected to result from this practice.
- c. You indicate that two ADC sacks are sent to ADC 64240, one with 20 pieces and one with six pieces. Please explain the rationale for using two sacks rather than one and describe any service benefits expected to result from this practice.

RESPONSES:

- a. The publisher believes those pieces go to different parts of the 3-digit zone, and that sacking parameters were set to achieve the most direct transportation and processing so as to improve service.
- b. The Cameron post office would have some city routes and some rural routes. The publisher attempts to prepare his pieces in sacks by carrier route even though he does not have the required number of pieces for a carrier route sack.
- c. The publisher believes the sack sortation for Gallatin was originally set this way for the same reasons as in b. above: to encourage USPS to transport the mail to city and rural carriers in the most direct possible manner.

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NNA T-2

BEFORE THE
POSTAL RATE COMMISSION
Washington, DC 20268-0001

Complaint of Time Warner et al.)
Concerning Periodicals Rates)

Docket No. C2004-1

**DIRECT TESTIMONY OF
R. DOUGLAS CREWS**
On behalf of the National Newspaper Association
(NNA T-2)

Respectfully Submitted,



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September 9, 2004

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OFFICE OF THE SECRETARY

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Autobiographical Sketch

I am a native of Odessa, MO, near Kansas City. I have a Bachelor of Journalism degree from the University of Missouri School of Journalism in Columbia. Before I became executive director, I worked for several Missouri weekly newspapers, including my hometown newspaper, The Odessan. I was news editor of the Union Franklin County Tribune in 1973, and was editor and publisher of The Lawson Review from September 1973 to December 1974, leasing the newspaper from a group of local businessmen. I've also been editor of The Edina Sentinel, and news editor of The Fairfax Forum. In 1978, with my wife, Tricia, I purchased The Lawson Review and we published it until I joined MPA.

I direct the association's activities including convention and meeting planning. I am a registered lobbyist in Jefferson City, and I am involved in advertising sales for Missouri Press Service. I am familiar with the business plan of a typical community newspaper, having managed several, and being in daily contact with owners, publishers and editors of newspapers in Missouri.

I am in my second three-year term on the National Newspaper Association's board of directors as representative of Newspaper Association Managers, Inc., an organization of executive directors of press associations. I am also a member of the Missouri Society of Association Executives and a member of the board of directors of Literacy Investment for Tomorrow, the statewide literacy resource center, headquartered in St. Louis. I was treasurer of the board of directors of Woodhaven Learning Center, an organization serving persons with mental retardation and other developmental disabilities in Columbia. In 2000, I joined the board of directors of Central Missouri Subcontracting Enterprises, a sheltered workshop in Columbia. I became president of the University of Missouri Alumni Association in July, 2004.

**Direct Testimony of
R. Douglas Crews**

1. Purpose of my testimony

My name is Doug Crews. I have been Executive Director of the Missouri Press Association since Jan. 1, 1990, after serving more than 10 years as assistant director.

The purpose of my testimony is to discuss how the proposed rates would affect newspapers in a generally rural state like mine, where the mail is critical to the local newspaper. I also will address newspapers' use of the Internet.

2. About Missouri Press Association

The Missouri Press Association is a statewide association having as members approximately 300 newspapers in the state of Missouri. The membership includes approximately 50 daily newspapers and 250 non-daily newspapers, publications which are rural in nature as well as urban publications. Our largest newspaper is the St. Louis Post-Dispatch with 314,000 daily and 485,000 Sunday subscribers. The smallest may be the Goodman Dispatch with 327 subscribers. Notwithstanding the two major metro newspapers—the Post-Dispatch and the Kansas City Star, our membership is mostly small newspapers. The typical daily is about 8,000 circulation and the weeklies are about 3,000 circulation.

The association was incorporated in 1922 as a not-for-profit corporation in the State of Missouri. It was incorporated for the purpose of furthering efficiency and morality in the newspaper field, promoting and improving the profession of journalism, and making the profession of journalism more beneficial to the people of the State of Missouri. Prior to incorporation,

1 it existed as an association which was originally formed in 1867. Since its
2 inception, the association has served as a spokesman on journalism
3 activities for the people in the newspaper field in Missouri. The Missouri
4 Press Association has established an office adjacent to the School of
5 Journalism located on the University of Missouri campus in Columbia,
6 Missouri, and maintains a full-time staff who work for the newspapers in the
7 State. As part of its program, the association has long had a keen interest
8 in preserving the distribution of newspapers via the U.S. Postal Service.

9
10 I am neither a postal expert nor necessarily an expert on every detail of our
11 members' mailing practices. However, having worked closely with these
12 newspapers for more than 25 years, I know their business plans and habits pretty
13 well. For this testimony, I have spoken to publishers or their representatives at
14 several newspapers whose business practices illustrate some of the challenges
15 publishers would face under the rates proposed in this case. Most of my
16 comments are directed to outside county periodicals mail, because this case
17 does not involve within county mail directly. Where the within county mail is
18 pertinent to understanding the full picture, I have mentioned it.

19 20 **3. Outside county readers are important to Missouri newspapers**

21
22 Newspapers in Missouri rely heavily upon within county mail. But there is also
23 significant use of outside county mail—both to serve readers within their markets
24 and those who live far away. All of them, I believe, perform some degree of
25 presorting. Relatively few use the proprietary mailing software that may be most
26 familiar to the larger periodicals industry and none that I am aware of produce
27 data in a “mail.dat” format. Publishers of smaller papers will use off-the-shelf
28 mail software if they can, because of the cost of the proprietary packages, which
29 can run well into the thousands of dollars.

1 Most weekly newspapers focus primarily upon their own counties. Whereas
 2 some states may have a few relatively large counties, Missouri has mostly small
 3 counties. And there are 114 of them. It is not uncommon to find newspapers
 4 serving multi-county areas. And, with our sparse population, many of the
 5 weeklies in small cities in Missouri are the principal newspapers for a trade zone,
 6 even if some of the even smaller towns within their home counties and adjacent
 7 counties have newspapers of their own.

8
 9 ***a. The Cameron Citizen Observer***

10
 11 The Cameron Citizen Observer is an excellent example. That weekly newspaper
 12 serves a four county area: Clinton, DeKalb, Daviess and Caldwell counties. It
 13 claims Clinton as its home county and earns within county circulation rates for
 14 that mail.

15
 16 Readers outside its home county, such as those in a small town called Maysville,
 17 also have their own community weekly paper. But the Citizen Observer brings
 18 them the news from the next nearest retail trade area and is probably considered
 19 their major newspaper. Cameron, for example, has that area's only movie
 20 theater, a couple of discount retail centers, and several restaurants that people in
 21 outlying areas will frequent. They depend upon the Citizen Observer to tie that
 22 greater community together.

23
 24 The mail pieces going outside Clinton county are mailed at outside county
 25 periodicals rates, which are the subject of this case. This use of outside county
 26 rates is typical for a significant county seat weekly. It has readers:

- 27 ▪ Within the county
- 28 ▪ Outside the county, but within the retail trade zone
- 29 ▪ Outside the county, but in the nearby Kansas City or St. Joseph areas
- 30 who may have direct ties to one of its four counties

- 1 ▪ Outside the county, but as far away as Arizona and California, where
2 senior citizens like to escape Missouri's harsh winters.

3
4 All of these readers would be individuals with ties to one of these four counties.
5 Most live, work or shop in those areas all or part of the year.

6
7 I have discussed its mailing patterns with the publisher, Jamey Honeycutt.

8
9 All of the mail is entered in the Cameron post office. The Cameron destination
10 mail remains in that office.

11
12 The rest of the mail travels to St. Joseph, Missouri, all in 5-digit, 3-digit, ADC or
13 mixed ADC sacks as the volumes permit. The total mailing is 1,167 copies, with
14 approximately 384 pieces outside the county.

15
16 Obviously, this outside county mail is too sparse for the use of a pallet, even if it
17 were a mixed ADC pallet. It would be rare for the paper to have an issue heavy
18 enough for 384 pieces to make up a 250 pound pallet.

19
20 Nor could this newspaper combine its copies at a central printing plant with any
21 other mailing to achieve sufficient volumes for a pallet. This newspaper does its
22 own printing, and even prints a couple of the smaller circulation neighboring
23 newspapers. But each of these products is time-sensitive, and cannot be
24 warehoused at the printer while others come off the press to be co-palletized in
25 some way.

26
27 At this point, this newspaper has not been offered any alternative to either a
28 pallet or a sack. Thus, the sacks are its only option.

29
30 If the proposed rates created a charge for sacks, this newspaper would be faced
31 with critical choices. It could absorb the extra cost from its profits. It could pass

1 along the cost of the sacks to its outside county readers. Or it could drop those
2 readers.

3

4 I have not examined this newspaper's earnings, nor do I have access to those
5 data. But I am familiar with the economics of small town newspapers. Profit
6 margins below 5 percent are not uncommon. In fact, many of the newspapers
7 barely break even after paying the small staff. They may earn the publishers an
8 adequate living, but they are not going to win any prizes with their attractive
9 cashflows. I would not expect most of our members to be able to absorb
10 significant postage increases. They will have to recover this cost through their
11 own price increases or drop those subscribers.

12

13 The newspaper will not want to drop its readers. Most of them are part of the
14 core circulation. I considered the impact of this decision.

15

16 The loss of the readers who live and shop in the Clinton County retail area would
17 cost the newspaper more than the subscription revenue. It would also cost the
18 potential loss of advertisers who can no longer reach those readers. So it will be
19 harmed in two ways if those readers are lost.

20

21 The potential loss of readers who escape Missouri's winters for warmer climates
22 in the winter would also have significant impact. These readers are particularly
23 important because they form a part of the in-market subscriber base during part
24 of the year. Those people, often called snowbirds, like to maintain their
25 subscriptions, because home is still Missouri. If the subscription rates increased
26 significantly, those readers are also at risk. Like those who live full time in the
27 four county area, these residents represent not only subscription income but
28 advertiser audience to this newspaper.

29

30 Possibly the newspaper could sell them subscriptions just for the months of their
31 Missouri residency—but most weekly newspapers sell subscriptions for a year at

1 a time. To chop up the subscription year into smaller increments would mean
2 setting up another system and adding the additional cost of doing so, such as
3 extra bookkeeping, more frequent invoices and additional promotion cost.

4
5 And, in the case of these snowbird readers, the paper would have to expect them
6 to resubscribe each time they returned home. The constant startup and stop
7 required of them likely would create enough of a barrier that the newspaper
8 would become more of a nuisance than a benefit, and some or all would give it
9 up. If the rates went up considerably for a year's subscription and the only
10 alternative were to subscribe and unsubscribe constantly as they come and go, I
11 would expect many of those readers to simply drop their subscription to the
12 newspaper.

13
14 Other readers are college students, retirees who move away permanently and
15 others who leave the area, but want to maintain contacts with Cameron. Some
16 of these may be individuals who will return to live and work in the 4-county
17 area—like the college students. In that case, they will be as important as the rest
18 of the subscriber base. Others may not shop in the area, but their ties to the area
19 are important and the newspaper would feel an obligation to serve them if
20 possible.

21
22 This newspaper does have an out-of-town subscription rate, which it charges to
23 people outside the retail trade zone. Its regular subscription is \$34. People within
24 the state but outside the 4-county area pay \$38. Out of staters pay \$49. The
25 publisher charges his snowbird readers the local rate. He considers those people
26 local subscribers. In addition to not wanting to lose them by jacking up the price
27 when they leave for the winter, as I said, the newspaper sells subscriptions on an
28 annual basis.

29
30 For the college students and permanent nonresidents, he charges the out of
31 state rate.

1

2 I considered whether it would be reasonable to require these individuals to
3 absorb the cost of a sack surcharge. I chose to look at its zone 7 subscribers,
4 which are the furthest away from Cameron.

5

6 This newspaper has 7 subscribers in zone 7. Let's assume this mail would travel
7 in an ADC sack. Under the proposed rates, these 7 subscribers would share a
8 \$3.25 sack surcharge, or .46 cents per issue. Subscriptions are sold on an
9 annual basis. If the proposed rates in this case were put into effect along with
10 new rates from the next omnibus rate case, it is easy to imagine an additional
11 \$20 surcharge on these subscriptions. That surcharge would probably cost the
12 newspaper most of those readers, and those readers their hometown
13 newspaper.

14

15 I considered whether those readers would read about their hometowns on the
16 newspaper website.

17

18 The newspaper does maintain a website. It does not post the entire newspaper. I
19 do not know its business plan for this website. I would be surprised if the
20 newspaper had one, as many small papers do not work from formal business
21 plans. But I believe its decision not to post the entire paper is based upon sound
22 reasoning that would follow the thinking of most of our publishers.

23

24 There are several reasons why the Internet newspaper is less complete than the
25 printed product.

26

27 One is absence of demand.

28

29 Most publishers find that their readers want the printed product as well, or
30 instead of the website. That may be in part because the population of Missouri
31 skews toward older people. In the state overall, the 2000 census shows the

1 percentage of people over 65 in our state to be 13.5%, which is 1.1% higher than
2 in the nation overall. In the more rural areas, the age gap is even wider. In
3 addition, those who winter out of the state are almost by definition the senior
4 citizens, as they are the retirees with the flexibility to get away.

5
6 The senior citizens are less likely to be Internet friendly. The Pew Internet and
7 American Life Center reported this year that only 22% of seniors over 65 use the
8 Internet. Perhaps that is from habit. And it is also often because they are living
9 on fixed incomes and are not likely to invest in a computer.

10
11 Another reason is that the essential economic base of a newspaper is in linking
12 news to advertising. The advertising pays for the operating cost of the
13 newspaper, primarily. But on the Internet, our culture seems to want the
14 information for free, and resists reading ads on webpages. At one time,
15 newspapers thought they could support news on the Internet by selling click-
16 through and banner ads. But those have not been widely successful because
17 readers ignore them. Newspapers have had some success with direct selling on
18 the Internet, such as in auctions that mimic the popular eBay service. But these
19 are costly to set up and outside the budget of most small newspapers.

20
21 Finally, in order to make the advertising that could be found on the website
22 meaningful, the current thinking about Internet sites is that the reader needs to
23 be able to link from the advertiser's information directly to that advertiser's
24 website. But small town newspaper advertisers are small businesses for the most
25 part. Many, if not most, of them have no websites. They would be the plumbers,
26 the mechanics, the tax accountants, the hair salons and so forth, who are sole
27 proprietorships and do not have the interest or resources for websites. So an
28 Internet newspaper will have little value to them.

29
30 Thus, I have to conclude most of the Citizen Observer's outside county readers
31 have no real alternative to the printed newspaper. If the publisher incurs

1 significant postage increases and must pass on those costs to readers, the
2 readers will be heavily impacted. If they cannot afford the price increase, they
3 will have to cancel their subscriptions. The Postal Service that ties these people
4 to their community will have let them down.

5
6 ***b. The Atchison County Mail***

7
8 This newspaper serves an area in upper Northwest Missouri. I spoke to its
9 publisher, Bill Farmer, about the proposed rates in this case. I decided to use his
10 newspaper as an illustration in this testimony because his situation may show
11 that there are potential alternatives to either the sacks and their surcharges, or
12 the Internet, for newspapers.

13
14 Farmer mails primarily within Atchison county. He carries mail himself each week
15 in sacks through an exceptional dispatch arrangement to at least three small post
16 offices in his area: Tarkio and Fairfax post offices in Missouri and Hamburg,
17 Iowa. He does that because service through the regular outside-county
18 distribution system is too slow to reach his readers on time.

19
20 But the mail he presents to the Rock Port, MO, post office where he claims his
21 within county rate is delivered in tubs. He was in the post office one day when the
22 Tarkio postmaster was visiting. The Tarkio postmaster mentioned that he was
23 receiving some periodicals in tubs. The Rock Port postmaster thought that was a
24 good idea. He began to do it with all the mail entered there, not only the
25 destinating within county mail, but his out of state mail.

26
27 Farmer told me that he has what he considers "a lot" of snowbirds—at least 10 or
28 15—who leave the area for Arizona or California. He once had repeated
29 complaints about service from those individuals, who experienced delays as long
30 as a week to 10 days and sometimes got two weeks' of newspapers at once.

1 Since he switched to tubs about three months ago, he has not had many
2 complaints.

3
4 **c. Odessa Odessan**

5
6 The Odessan's story also may be fairly typical. I spoke with Joe Spaar, a
7 member of the family that has owned this newspaper for several generations.
8 Joe is a unique newspaper vice president. He actually sacks the mail himself, so
9 he knows a little about it.

10
11 Joe drives to Independence, Missouri, maybe 30 miles west of Odessa, where
12 his newspaper is printed by an area daily newspaper company. The Odessan
13 has no circulation software at all. It simply maintains a subscriber list and counts
14 on the Independence publisher to produce labels and sack tags. Joe's job is to
15 pick up the bundles after they come off the bundling machine and take them
16 where they need to go.

17
18 His newspaper serves Odessa and several small towns nearby. Joe "drop-ships"
19 to a couple of small post offices—Oak Grove and Bates City—that are part of his
20 retail zone, but outside his county. And he delivers the rest of the mail to the
21 Odessa post office himself. His paper serves other small towns in the county, but
22 with the time available between the presstime and the entry time at the post
23 office, he cannot reach all of the small towns with his "drop ship."

24
25 Interestingly, Joe also drops the in-county copies at Odessa in bundles. But the
26 newspapers headed to Wellington and Napoleon—two small towns in the
27 county—cannot be entered in bundles. These are in sacks. The copies in sacks
28 leave Odessa and backtrack to Kansas City, another 20 miles east of
29 Independence from where Joe just picked up the papers, to be processed and
30 come back to the small towns. Would Joe use a container other than sacks?
31 Sure, if he had an alternative, but none other has been authorized.

1

2 Another 500 copies are also in sacks. Two-thirds of these go to readers within
3 Missouri. The rest go outside the state, mostly to former residents and, again, the
4 snowbirds. These readers are important to the newspaper. The Odessan has
5 three subscription rates: \$45 per year for out of state readers; \$40 for readers in
6 Missouri but outside the market and \$34 for in-market.

7

8 Like the Cameron newspaper, this one would have an extremely difficult set of
9 choices if the use of sacking procedures to achieve service standard-delivery
10 resulted in sack charges. Joe says his mailing uses 30-40 sacks per issue, even
11 with some copies being dropped in bundles. I asked him what he would do if he
12 had to recover a sack charge from \$1.55 to \$3.25 from the readers whose copies
13 are in those sacks. He said he did not believe most of them would pay the
14 upcharge.

15

16 I asked whether his readers could find what they needed on the Odessan's
17 website, and he laughed. He said he didn't even know what was on the website,
18 so I visited it myself. The paper's website is primarily a calling card for the
19 newspaper. It does not contain a full issue of the paper, nor even a close
20 facsimile of it.

21

22 Joe said he did not believe the Odessan advertisers would support moving the
23 news to the website, and he had no idea how the newspaper would pay for doing
24 so. He also noted that Internet usage in small towns like his, he believes, trails
25 that of bigger cities, and that his readers wouldn't use the Internet very much.

26

27 The Odessan, like the Citizen-Observer, would suffer serious harm if the Postal
28 Service began to charge for sacks and did not provide a viable alternative to the
29 sacks, without a surcharge.

30

1 I have read the testimony of the complainants' witness John Steele Gordon. I
2 could not disagree with him more when he opines that the Postal Service no
3 longer needs to bind the nation together because of the Internet. Mr. Gordon
4 clearly has never lived in small-town Missouri, or in most of the areas served by
5 NNA's members. For these newspapers, periodicals mail is as critical as it was
6 in the 19th Century. The examples of these three Missouri Press Association
7 members detailed here would be replicated a thousand times over if we were to
8 study every weekly newspaper in America. I believe the dramatic restructuring of
9 rates suggested in this case would put many of the outside county readers in
10 grave jeopardy.

11

12 **4. Conclusion**

13 I have discussed the proposed rates with several MPA members. I chose three
14 examples for this testimony because I think they speak to three important points:

15

- 16 1. Outside county readers are important to small newspapers,
- 17 2. The Internet is not going to provide a suitable substitute in the foreseeable
18 future.
- 19 3. Sacks are still a significant part of the mail preparation picture. But the use
20 of tubs is beginning to come into the picture. In time, it may make sacks
21 unnecessary and allow the Postal Service to achieve the service
22 publishers think they are paying for today.

23

24 If the cost of sacks escalates before the tub option is fully available, however,
25 the net effect upon Missouri newspapers will be a circulation loss. There may
26 not be a need for tubs at all, if the sack charges drive the outside county
27 readers out of the system. Once they are lost readers, they are not likely to
28 return either to the newspaper or to the Postal Service as periodicals
29 recipients. Therefore, I believe the prudent thing would be to deploy tubs or
30 other containers as viable options before trying to shape mailers' behavior by
31 penalizing them for something they cannot avoid.

1
2 Moreover, it is essential for the Commission to understand the critical role
3 played by Periodicals in the weekly newspaper industry, and to realize that
4 weekly newspapers serve a very large part of this country. If Periodicals rates
5 are restructured in the dramatic ways proposed here, I believe we will see
6 serious disruption to our outside county readers.

Declaration

I, Doug Crews, declare under penalty of perjury that the foregoing testimony is true and accurate to the best of my knowledge, information, and belief.

A handwritten signature in black ink that reads "Doug Crews". The signature is written in a cursive, slightly slanted style.

Doug Crews

September 9, 2004

Certificate of Service

I hereby certify that I have filed the foregoing document online in accordance with the Commission's Rules of Practice.



Tonda F. Rush
Counsel for National
Newspaper Association

September 9, 2004

Certificate of Service

I hereby certify that I have filed the foregoing document online in accordance with the Commission's Rules of Practice.



Tonda F. Rush
Counsel for National
Newspaper Association

September 9, 2004

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Complaint of Time Warner Inc. et al.)
Concerning Periodicals Rates)

Docket No.C2004-1

DECLARATION OF R. DOUGLAS CREWS

I, R. Douglas Crews, declare under penalty of perjury, that the direct testimony of R. Douglas Crews on behalf of National Newspaper Association, NNA T2, in the above captioned docket was prepared by me or under my direction and that if I were to give this testimony orally before the Commission today, my testimony would be the same.

I further declare that responses to interrogatories that have been filed by NNA in this case were prepared by me or under my direction and if I were to give these responses orally before the Commission today, my responses would be the same.



R. Douglas Crews

Date: September 9, 2004

National Newspaper Association

**Max Heath
(NNA-T-1)**

TW et al./NNA-T1-1 Your testimony discusses the possible use of containers other than sacks, such as tubs or APC's, to enter low-volume newspapers. At page 10 you describe experiments in some locations where the outgoing portion of certain newspapers is entered in tubs:

"In these experiments, newspapers may place small bundles or even unbundled loose newspapers prepared in proper sortation in the white, two-handled tubs that are so ubiquitous within the system that I suspect every office has several.

These tubs do not seem to present the same problems with opening and emptying that sacks have sometimes created. They are cheap, easy to handle and easy to stack. They go right to FSM1000 flat-sorting machines."

- a. Please explain what you mean by the term "proper sortation."
- b. Please confirm that when newspapers are entered in this manner, the tubs, unlike sacks and pallets, are not presorted or labeled for particular ADC, 3-digit or 5-digit destinations but rather used for placement of all outgoing bundles and loose pieces. If not confirmed, please explain how the tubs are used.
- c. Is it your understanding that these tubs are used only to transport the mail to the nearest processing plant, where the tubs are emptied of their contents? If not please explain how you believe the tubs are being used in the processing and transportation of newspapers.
- d. Assume that in a given tub a newspaper mailer enters a bundle of ten newspapers that is presorted to a distant ADC. In addition, he enters some loose pieces. Based on your understanding of how the Postal Service handles the mail in these tubs, do you believe that the ADC bundle will maintain its integrity until it gets to the destination ADC? Or do you believe it will be broken at the originating processing plant and its

pieces sorted on an FSM-1000 (assuming such a machine exists at that plant)?

- e. If a tub, as you indicate, goes directly to an FSM-1000 machine, which sorts pieces rather than bundles, can one then not conclude that the bundling of those pieces, which would have to be undone before they are fed into the machine, simply adds to the work that must be done by postal clerks and that it would be better to simply leave the pieces unbundled? If you have received or are aware of any comments regarding this point by Postal Service officials, please describe them.
- f. Would you agree that the tubs in question can be viewed as having a Mixed ADC presort level?
- g. Under the current rate structure, do mailers who use these tubs pay the basic presort rate?

RESPONSE:

- a. Proper sortation refers to any and all requirements of DMM-prescribed presort for Periodicals' rate eligibility, including 6 or more copies to the carrier-route, 5-digit, 3-digit, ADC, or Mixed ADC. Such sortation also maximizes delivery with more direct bundles than the required 24-piece level, although some publishers may choose to presort at this higher level per bundle and container. Proper sortation would also include all combinations of bundles per container as prescribed by DMM M920 and other sections for combining carrier route with 5-digit to some destinations, multiple 5-digits to some destinations, and multiple 3-digits to some

destinations. Experiments to date have included 5-digit and 3-digit, although most have been limited to a particular SCF or ADC.

- b. Not confirmed. While tubs may be most commonly used internally, in the experience cited, the same pink Periodical tags used in sack tag holders are inserted in tag holders on tubs. Delivery improved considerably (1-3 days). Postal processing personnel have suggested such tub use to solve systemic delivery delays within SCFs and beyond, including North Houston in the 1990s. In 2003 it was implemented as a pilot program in Jackson MS 390-392. In 2004 it was begun in Tulsa OK P&DC for 3-digit 740-743, ADC 740, and Mixed ADC 740. Oklahoma City P&DC has been requesting publishers place newspapers in tubs since 2002 for 3-digit 730-731, ADC 730 and Mixed ADC 730. (In Oklahoma the number of handling for sacks from inbound dock to outbound dock is 14, for flat tubs it is 9.) In Maine since July 14, 2004 eight newspapers were placed loose in tubs in an experiment for 5-digit and 3-digit sorts replacing sacks within 3-digit 040-049. Mailers are using tubs to prepare newspaper Periodical mail in lieu of sacks, plain and simple, resulting in improved delivery and less cost.

- c. Not necessarily. In some cases tubs were used to move mail from associate offices to hubs, including SCFs and ADCs, and then back out to associate offices. Some of the mail, depending on sortation, was placed on flat sorters to be sorted and dispatched with other such mail.

- d. I am not yet aware of situations where distant ADC mail was prepared in tubs, but only mail to the ADC of origin. Should USPS allow more widespread use of tubs by Periodical small-volume Periodical publishers, I would not rule out preparation to distant ADCs, but don't necessarily encourage it, as there is unclear service value. I would not envision mixing loose mail not for the ADC in question. Your question does not make it clear whether the loose mail would be for the same or other ADCs, but if a bundle was inside a tub to a distant ADC, I would expect that bundle to maintain its integrity better than a similar bundle in a sack, and at least as good and likely better than a shrink-wrap bundle on a pallet.
- Newspapers in tubs are not necessarily tied in bundles, as the tub is, in effect, the container for the bundle. While it certainly could be broken at the original processing plant under current rules (if tied in a bundle) and put on either an FSM1000 or perhaps even an AFSM100, depending on piece size and weight, I am suggesting a future that would get mail out of sacks, as USPS and complainants prefer, and much of the newspaper industry would prefer if the option were provided.
- e. As indicated by my response in d., copies in tubs to a carrier route, 5-digit, or 3-digit would not necessarily be tied. They were not done so in Oklahoma or Maine. It would be my belief that they should not. If tied, yes, they could increase unbundling costs. But if prepared loose in tubs, half-fold newspapers fit as if the tubs were made for them, and should be easy to unload into either flat-sorting

machine decks. In the experiments referred to, comments have not indicated any such problem. In fact, the Maine experiment with eight newspapers is being expanded to the entire state to include many more titles.

- f. Yes. Mailers who use these tubs in experiments at present pay the same presort level of the sack, since they are the surrogate for the sack.

TW et al./NNA-T1-2 On page 10, you refer to some mailers of small newspapers being allowed simply to enter bundles of newspapers on a postal facility's loading dock, or placing them in APC's or other rolling stock.

- a. Do the practices you describe refer to outgoing newspapers that will be taken to the nearest processing facility for distribution to the rest of the world?
- b. Are you referring to bundles that are presorted and secured according to regulations covering the bundling of Periodicals? Or are you also referring to loose copies? Please explain.
- c. Are you aware, and have you personally observed, what happens to these bundles after they arrive at the processing facility?
- d. Based on your own observations and on your understanding from conversations with Postal Service officials, please state what you believe happens to the newspaper bundles that are entered in this manner after they arrive at the processing plant. Are they taken to a (manual or mechanized) bundle sorting operation, from which the bundles are sent on to their different destinations, or are they just taken to a piece sorting operations where individual copies are sorted?
- e. Would you agree that an APC used in this manner has a Mixed ADC presort level, given that it may contain mail to any ADC?

RESPONSE:

- a. Yes. The practice referred to is a mostly hypothetical one since the Postal Service hasn't explored this alternative in practice, as far as I know, but some discussions on this topic have been held.
- b. In the hypothetical, bundles would be prepared and securely tied.
- c. No.
- d. Since I have not witnessed these experiments personally, I am assuming they are worked logically. Some might be worked on a belt operation within a plant where bundles are manually sorted for the SCF or even ADC, some on current SPBS machines, and in the future, on more productive APPS machines as deployment continues in 2005-2006 and beyond. Piece sorting at the origin plant probably would not occur except for those pieces for delivery within the 5-digits processed by a particular plant.
- e. No. The bundles would be replacements for sacks. Sacks to multiple destinations placed in an APC with First Class and other mail from associate offices for the convenience of USPS transportation are not subjected to a Mixed ADC presort level, as they move through the system intact to the appropriate destination level.

TW et al./NNA-T1-3

You indicate on page 8 that a typical small newspaper may send about 750 copies at Outside County rates.

- a. Realizing that the percentages may vary, which portion of the 750 Outside County pieces would typically be to neighboring counties?
- b. Approximately what portion of the 750 Outside County copies would typically go to distant destinations (e.g., to areas served by other ADC's)?
- c. According to the FY2003 billing determinants, there were about 800 million In-County pieces last year. Extrapolating your estimate that a typical NNA member has circulation of 3,500, of which about 750 are Outside County pieces, that would indicate that about 220 million Outside County pieces are mailed by In-County mailers. Does this appear to you as a reasonable estimate? If no, please indicate what you believe is a reasonable estimate of Outside County pieces sent by In-County mailers. Please indicate also approximately what proportion of the Outside County pieces from In-County mailers you believe is sent beyond neighboring counties to more distant locations. If you believe the numbers are significantly different in and outside "snowbird" season, please provide estimates for both cases

RESPONSE:

- a. Since the elimination of the intra-SCF rate in R2001-1, it is more difficult to estimate that answer since most neighboring-county copies have been forced from SCF rate level to higher zone 1-2 rate level. But my belief is that from 20-50% of the copies could be in adjoining counties.
- b. About 20-30%. (However, note that many copies outside adjoining counties stay in the SCF or origin ADC, so this answer is not necessarily the balance of question a.)
- c. This appears to be a reasonable estimate, but it is difficult to know the precise answer. USPS has never seemed to know, so I wouldn't presume certainty. The proportion of about 20-30% was answered in b. While "snowbird" subscribers increase the percentage of Outside County pieces from September-April, the percentage varies by region and latitude. It could easily be 5-10% in many communities and more in some northern climes.

TW et al./NNA-T1-4

- a. Is it reasonable to assume that of the copies sent by small newspapers to distant locations there seldom are more than at most a few copies that go to the same 5-digit ZIP code area? If it is not, please explain.
- b. If a small weekly newspaper has some copies going to a distant 5-digit zone, how many copies would there need to be to that zone before you would advice (sic) the newspaper to use a 5-digit sack to that location?

RESPONSE

- a. Yes and No. While in many situations there are limited quantities to the same 5-digit, it is a rather common occurrence for "snowbirds" from many communities to migrate to the same towns in Florida, Texas, Arizona, etc., and form their own "snowbird" expatriate communities with the same ZIP.
- b. NNA always recommends, and most community newspaper postal software accommodates, sortation of 6 or more pieces to the same 5-digit ZIP code for both rate purposes and to maximize delivery with direct sacks. Less commonly, NNA recommends, and members exercise, their privilege to sort fewer than 6 pieces to the 5-digit or 3-digit ZIP when delivery problems under the present inefficient processing and transportation structure of USPS denies newspapers proper expeditious treatment within service standards. The Postal Service has long admitted that it sometimes cannot solve its delivery problems, and therefore has extended this privilege to mailers, who are paying the same postage for the copies delivered on time and those that are not.

TW et al./NNA-T1-5 You state at page 8, lines 10-12, "Newspapers would be happy to prepare larger, fewer sacks, if the Postal Service could achieve the delivery it promises with those larger sacks." You also indicate, at lines 7-8, that use of "skin sacks" helps in getting "not better service, but minimum service at the service expectation set out by the Postal Service."

- a. In the few cases you know of where mailers are allowed to use tubs or APC's to enter their Outside County pieces, have you found that this results in (1) equal or (2) better service than if the pieces were mailed in skin sacks?
- b. Have you found that ability to achieve "reasonable" service without resorting to "skin sacks" varies significantly from one destination to another? Would you say it varies more with the location from which newspapers are mailed or with the destination to which they are sent?
- c. Are you aware of any study, by the industry, the Postal Service or other parties, that compared the service levels achieved for newspapers mailed to distant destinations using, respectively, 5-digit, 3-digit, ADC, or mixed ADC sacks? If yes, please describe all such studies and the results obtained.

RESPONSE:

- a. Yes. The information from NNA members and state associations in areas where tubs have been used is that virtually all delays within an SCF or ADC were resolved, or at least so improved as to please subscribers compared to prior service from sack levels.

- b. Yes. The quality of service provided by processing plants varies greatly, but USPS is an equal-opportunity abuser of Periodicals sack mailers, with systemic delays in some regions for mail within the SCF and ADC. However, it is harder for small newspapers to have any effect on the system the further it gets from point of entry, and snowbird destinations are infamous for providing delayed service, worse during the winter seasons in Florida, Texas, Arizona, etc.
- c. No.

TW et al./NNA-T1-6

You state at page 8, lines 3-5, "Newspapers are often told by postmasters to use these low-volume sacks after other efforts to improve service have failed."

- a. Are you aware of any postmaster or other USPS official telling newspaper mailers that use of low-volume sacks is not advisable because it increases Postal Service costs and that those additional costs will be attributed to the Periodicals class? If yes, how often is this type of advice given?
- b. What "other efforts to improve service" are you referring to?

RESPONSE:

- a. Yes. Some postmasters do advise against them out of fear that small-volume sacks won't be given good treatment, or mis-sorted. Mostly postal headquarters and Area operations personnel advise against their use as more costly and less efficient. But those who care about customer service and want to protect postal volumes predominate with skin-sack advice. The Postal Service speaks with many voices, and until the institution can meet Periodical Service Standards, it should side with delivery over costs. The Postal Service's failure to provide timely delivery is the root problem, not the mailer who is forced to use low-volume sacks. I believe the complainants in this case desire to shoot the wounded to put them out of their misery.

- b. First and foremost, Publication Watches, USPS Form 3721, which are uniquely useless and only serve to satisfy a customer that the publisher is making some effort to improve the system. Second, USPS Consumer Service Cards, PS Form 4341, which have been revised to "We Want to Know" cards in recent years. Third, complaints by recipients to delivery post offices where mail is not received on a timely basis. Fourth, complaints to origin postmasters, both by publishers and out-of-area subscribers, seeking help. Fifth, complaints to Congressmen, which are usually answered with form letters from USPS about its commitment to service but that rarely resolve systemic problems. Many postmasters at delivery offices blame the newspaper and tell subscribers that newspapers do not enter papers on a timely basis, when in fact, virtually all newspapers enter mail into the system immediately after printing the weekly, multi-weekly, or daily issue.

TW et al./NNA-T1-7

On page 9, line 2, you state that "Forklifts are required to move them [pallets]."

- a. Have you ever seen a pallet being moved by a pallet jack?
- b. Are you aware of the fact that a pallet can be moved by one person using a pallet jack?
- c. Are you aware of the fact that if you type in the words "pallet jacks" into Google, you will receive about 38,200 hits?
- d. Are you aware of the fact that Google displays an ad for pallet jacks that *only cost \$219.00 at www.lolbiz.com*?
- e. How many rural post offices have receiving docks?
- f. Has NNA conducted any studies of rural post office receiving procedures? If so, please provide any such studies.
- g. When mail arrives at most rural offices from the P&DC or other upstream facility, do not the USPS truck drivers move palletized product from their trucks to the DDUs using a pallet jack and not a fork lift?
- h. Do not most DDUs process their incoming mail on the day that it arrives, so that there is no need to stack pallets at the DDU?
- i. Cannot one person move an empty pallet without the use of a fork lift or pallet jack? If no, please explain fully.

RESPONSE:

- a. Yes.

- b. Yes.
- c. No.
- d. No. But the problem is not exclusive to small newspapers, but very much applicable to small post offices. Perhaps complainants would like to go to www.lolbiz.com and buy pallet jacks for the 20-30,000 small offices that lack them, or suggest to USPS that they fund them.
- e. I don't know and I doubt the Postal Service could respond either. But I do know that many, many small rural post offices where our members operate do not. Often, only the main county post office has a dock, with the smaller rural offices lacking one.
- f. No, but we understand the world our members reside in, far from the world of the large magazine industry. I personally visit scores of small towns each year, and see many rural post offices without loading docks and without ability to accept DDU pallets.
- g. Perhaps, at those offices with docks.
- h. Depending on volume on most delivery days, yes. But many small post offices are bursting at the seams with no room for mail, so the need to stack pallets is beyond the range of possibility.
- i. Yes.

TW et al./NNA-T1-8 On page 9 of your testimony, you discuss Interlink CM2

software.

- a. Please confirm that you are a client of Interlink CM2.
- b. Please confirm that according to its website (www.ilsw.com/about.php) Interlink "has grown to include more than 1,000 daily and weekly newspapers."
- c. Please confirm that the Interlink website contains the following statement:
"Interlink's software-based service makes it possible for a clerk to handle your total circulation—everything from billing a renewal to taking the last penny in postal discounts—all without being either a circulation expert or postal wizard."
- d. Please confirm that "taking the last penny in postal discounts" requires Interlink to make programming changes which reflect any changes in the rate structure and DMM rules.
- e. Please confirm that Interlink also states the following on its website:
"Interlink's communication system includes more than 10 Centrex phone lines plus a high-speed T1 connection to the Internet. The office computer systems include the latest Windows and Linux servers to manage files, Internet access, and internal and external email. Interlink's web servers are positioned internally and externally for maximum reliability, performance, and security."

- f. If Interlink has such a large customer base, sophisticated computer systems, and the ability to "take the last penny in postal discounts," why would it not keep pace with any rate structure changes resulting from the approval of the proposed rate structure? Please explain fully.

RESPONSE:

- a. Confirmed.
- b. I accept their word that is so. I haven't reviewed their customer records.
- c. Agreed. But certainly some training is required in the operation of that software. Also there are numerous NNA newspapers that lack the proper computers or computer expertise to benefit from the training. There are newspapers in America still using index cards and Address-o-graph machines for labels, which may surprise the big-city publishers in this case.
- d. Agreed. It is PAVE-certified. But not for pallet use under present PAVE requirements.
- e. Agreed. They assure me that they provide that.
- f. I did not say that it would not keep pace. That does not necessarily mean newspapers will have the ability to use this software, the capital to purchase it and the personnel to run it. And it does not necessarily mean pallets would be possible for newspapers, even if they all had the necessary software. My point was that pallet modules are not in use, nor often affordable, and NNA members need rules less stringent to allow use of sack software to prepare pallets, since packages on those pallets are identical.

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BEFORE THE
 POSTAL RATE COMMISSION
 WASHINGTON, D.C. 20266-0001

Complaint of Time Warner Inc. et al. }
 Concerning Periodicals Rates }

Docket No.C2004-1

TESTIMONY OF MAX HEATH, VICE PRESIDENT
 LANDMARK COMMUNITY NEWSPAPERS, INC.
 (NNA T-1)

Respectfully Submitted,



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AUTOBIOGRAPHICAL SKETCH

My name is Max Heath. I am vice president for Landmark Community Newspapers, Inc. (LCNI), Shelbyville, KY, a division of Landmark Communications, Norfolk, VA. I am responsible for circulation development and postal issues. I am also involved with acquisitions, public relations and press association activities. LCNI has 53 weekly and daily newspapers in 13 states with 329,000 paid circulation, 478,000 free newspaper and shopper circulation, and 384,000 free special publication circulation. We also have eight college sports publications with 65,000 circulation in Periodicals mail.

I also am chairman of the National Newspaper Association (NNA) Postal Committee, and have served in that capacity for 18 years. I am its representative on the Mailers Technical Advisory Committee (MTAC), and, in that role, have served on a variety of service improvement and cost reduction teams within MTAC, focusing upon the Postal Service's ongoing problems in meeting the needs of Periodicals mailers. I also represent newspapers on the Periodicals Operations Advisory Committee (POAC), which closely examines problems with flats processing and other issues directly affecting newspapers in the mail. I have served on a variety of work groups on flats automation, package integrity, Product Redesign, and ePubwatch.

I am the community newspaper industry's principal trainer on the use of postal services and understanding mail preparation and requirements. I conduct 6-8 seminars and workshops each year within the industry and serve informally as a consultant to NNA members and newspaper groups with postal problems.

I appeared before this commission in the omnibus rate cases of R97-1 and R2000-1.

The primary purpose of my testimony today is to enlighten the Commission's record on why newspapers use sacks, how and why they prepare Periodicals mail as they do, and how the rates proposed in this docket would affect small newspapers. My focus is principally upon the newspaper practices with which I am familiar through my NNA work, as well as with my own company's newspapers.

1 **Direct Testimony of Max Heath**

2
3 **I. Newspapers Use Sacks Because They Must.**

4 **A. The Postal Service formally provides no alternative to the sack for small**
5 **volume mailers.**

6
7 The Postal Service requires newspapers to be prepared under the standards set
8 out in the Domestic Mail Manual Section M210. That section states:

9
10 Packages of nonletter-sized pieces must be sacked or palletized under one of
11 the following:

- 12
13 (1) Sacked under 4.0, except that a Presorted rate mailing that is a
14 part of a mailing job that also contains an automation flats
15 mailing must be sacked under M910 or M920 as described in
16 1.2.
17 (2) Palletized under M041 and M045, M920, M930 or M940.

18
19 Section M041.5.3 requires pallets to contain at least 250 pounds of mail unless it
20 is mail entered for delivery at a destination delivery unit, or unless an SCF
21 manager gives permission for pallets with less than the minimum load, and the
22 pallet contains mail for that SCF service area.

23
24 Section M920, M930 and M940 permit Periodicals to co-palletize mail if a
25 periodicals mail can be merged with the mail of another publication to achieve
26 the Postal Service's requirements.

27
28 If a Periodical is unable to palletize under any of the foregoing sections, sacks
29 are the only container officially permitted.

1 Newspaper mail is typically centered upon a county or a portion of an SCF zone
2 where the newspaper's retail trade zone is located. In a typical community
3 newspaper like that represented by NNA, 70 to 80 percent of the mail is destined
4 for these two close-in mailing zones. The remainder will be destined for readers
5 outside the retail trade zone, to people who have moved away, are temporarily
6 away or have ties to the local area for some reason. A description of those out of
7 town readers is contained in the testimony of R. Douglas Crews, NNA T-2.

8
9 There are ongoing discussions within USPS, to which I refer later in my
10 testimony, as well as some informal experimental programs of which I am aware,
11 that permit alternatives to sacks. And I believe further alternatives are possible.
12 However, the rules require sacks today, so that is what publishers generally use.

13
14 Sacks may not be the most desirable of containers, either from the Postal
15 Service's viewpoint or the mailers. The plastic sacks in use today draw some
16 criticism from mail handlers within our industry. They have a tendency to produce
17 plastic splinters, which can be painful to the mailhandler. Brown sacks are
18 difficult to obtain, and the good canvas ones are becoming rare as USPS moves
19 into the cheap plastic sacks. These cheap sacks are hard to stack, because they
20 are slick. The sack tag holders break and separate and are missing when the
21 sacks are shipped. So sacks are not very popular with publishers. Publishers do
22 not use these containers because they wish to, but rather because they must.

23
24 **B. Small volume sacks have become essential for decent service.**

25
26 I testified before the Commission in R97-1 and R2000-1 about severe problems
27 with periodicals service, particularly in outlying zones.

28
29 In R97-1, I addressed changes in sortation requirements from the reclassification
30 case MC96-1 that had created serious deterioration in service for newspapers
31 when newspapers were first forced into the ADC and mixed ADC sorting

1 scheme. That new requirement changed sacking requirements to the SCF that
2 removed the SCF package, and instituted other new procedures that, I believe,
3 led to a chronic problem with poor delivery. The changes caused my postal-
4 consultancy telephone to ring off the hook with complaints about lost subscribers
5 and ineffective Postal Service response to complaints.

6
7 In R2000-1, the situation had not markedly improved and I reiterated the
8 objections to such poor service. I took issue with the Postal Service's witnesses'
9 claims that new publisher expectations for service were leading to rising costs for
10 periodicals.

11
12 I said in that case:

13
14 I have worked with newspapers in the mailstream since 1985.
15 During that time, our expectations for the Postal Service to achieve
16 service standards have been unchanged. We are not asking for
17 miraculous delivery, or heroic efforts, or for facilities to be disrupted
18 if we miss our entry times. All we have ever asked for is the
19 meeting of the service standards. No reader should receive the
20 paper a week late. No reader should receive two or three issues in
21 a clump. No reader should have to forego the opportunity to keep
22 up with the hometown news just because she goes to Florida to
23 escape the snow in Indiana. But all of that has happened
24 repeatedly during my years of NNA and MTAC. Service
25 Direct Testimony of Max Heath, NNA T-1, Docket R97-1, at p. 21.

26
27 Of course, the Postal Service has consistently said it does not ascribe to an
28 official service standard for Periodicals mail. But Service Standards for FY 2004
29 Q1 from USPS on CD-Rom show expectations for mail processing that assume
30 delivery of newspapers to any point in the country should take no longer than
31 seven days, and delivery time should be one day in a paper's market area.

1 Periodicals mailers have been pressing for some time for published standards
2 and regular measurements, like the system USPS uses for EXFC (First –Class
3 letter box mail) which applies to fewer and fewer mailers or recipients as the mail
4 mix shifts. USPS has resisted doing so. But it does cite at least an expectation
5 when pressed for a “standard.” Regardless of whether the “standard” is three
6 days, four days or seven days, USPS has seemed unable to consistently meet
7 an expectation, and often still delivers newspapers in clumps as processing
8 plants fail to deal efficiently with sacked mail. One reason may be that sack
9 sorting machines are being taken out of most plants, forcing sack handling into
10 costly manual handling.

11

12 Since those two rate cases in which I have testified, the problems with service
13 outside the county have not improved very much, if at all. Rather, it continues to
14 be poor. I get fewer complaint calls, but when I speak directly with publishers
15 during my seminars and workshops, I learn that is because many of them have
16 given up on improving the situation, and continue to lose subscribers as they give
17 up as well.

18

19 However, some publishers have achieved the service promised by the Postal
20 Service by carefully packaging and sacking their mail to try to move these copies
21 as directly to their destination as possible. Often it is the local postmaster who
22 has been working with them on improving service who suggests the changes
23 they need to make.

24

25 Sacks for Periodicals require 24 pieces when sorted to the 5-digit, 3-digit, SCF or
26 ADC level. Bundles require six pieces, and sacks are allowed with one 6-piece
27 bundle.

28

29 However, an NNA-requested exception is allowed under DMM Section M210.1.5
30 when a publisher determines that preparation of smaller bundles or sacks from
31 one to six pieces improves service, provided the smaller bundles are placed in 5-

1 digit, 3-digit or SCF sacks. Newspapers like to use 5-digit sacks when at all
2 possible for their longer distance mail because of this exception. This has led to
3 the use of containers that have become known as "skin sacks." Newspapers are
4 often told by postmasters to use these low-volume sacks after other efforts to
5 improve service have failed.

6
7 "Skin sacks" have turned out to be a big help in getting, not better service, but
8 minimum service at the service expectation set out by the Postal Service. When
9 mail is forced out of the skin sacks and into larger volume sacks, sortations are
10 then forced upstream to 3-digit or ADC levels, and service suffers. Newspapers
11 would be happy to prepare larger, fewer sacks, if the Postal Service could
12 achieve the delivery it promises with those larger sacks.

13 14 **C. Pallets are not available for newspapers**

15
16 Pallets may be preferred by the Postal Service and by the complainants in this
17 case. But there are numerous problems for newspapers in using them.

18
19 First, as I noted above, DMM M041.5.3 requires a minimum of 250 pounds per
20 destination, except to the DDU or SCF service area (the latter only with written
21 permission). Most newspapers do not have 250 pounds of SCF mail.

22
23 The typical NNA member newspaper is a weekly with about 3,500 circulation. If
24 it is safe to assume that only about a fourth of that mail, at the maximum, goes
25 outside the trade zone, the outside county mail might be around 750 pieces. In
26 order to meet a single pallet's minimum weight, each copy would need to be
27 between 5 and 6 ounces. But that would be an extremely rare and unique
28 community newspaper. Particularly because most save postage by not including
29 their inserts in copies going outside the retail trade zone, a typical mailed
30 community paper probably is closer to 3 to 4 ounces.

1 Second, pallets require machinery. Human beings don't haul pallets around.
2 Forklifts are required to move them. Many community newspapers do not own
3 forklifts. And more importantly, many small post offices do not own forklifts
4 either—and do not have the room to stack pallets even if they did have the
5 equipment. Most rural post offices cannot accept mail on pallets, plain and
6 simple.

7
8 Finally, newspapers typically use different mail processing software than the
9 large Periodicals publishers use. Some use off-the-shelf software. Some use
10 Interlink CM2, a low cost PAVE-certified provider popular in the industry. Others
11 use software essentially created for bulk mailers, because it is inexpensive. But
12 none of these programs contain modules for calculating pallets. Palletization
13 software can be extremely costly to purchase, and may not be available at all in
14 modules that work with a newspaper's current software. Since newspapers are
15 generally ineligible to use pallets, few publishers have been concerned about this
16 problem. But if a requirement for pallets were ever instituted, USPS would need
17 to create an exception that would permit software approved for sack sortation to
18 be used, if it hoped to achieve any amount of compliance by small newspapers.
19 Since packages are the same, this is very feasible.

20 21 22 **II. Newspapers Would Prefer an Alternative**

23
24 As noted above, sacks are not very popular with publishers, and as the plastic
25 sacks gain greater usage, they become even less popular.

26
27 I have worked for several years to persuade USPS to permit alternatives to sacks
28 or pallets. It is clear to me that the former are becoming a *bête noire* in the
29 system, and the latter will not be usable for small volume mailers.

1 There have been numerous experiments with plastic tubs for newspaper mail.
2 One such experiment is noted in the testimony of NNA Witness Crews. I am also
3 aware of an experiment that resulted in Jackson, MS, SCF from a visit by this
4 Commission to Oxford, MS, when complaints about poor service were so
5 numerous and vociferous that the USPS plant manager in that area decided to
6 try to do something about the problem.

7
8 In these experiments, newspapers may place small bundles or even unbundled
9 loose newspapers prepared in proper sortation in the white, two-handled tubs
10 that are so ubiquitous within the system that I suspect every office has several.

11
12 These tubs do not seem to present the same problems with opening and
13 emptying that sacks have sometimes created. They are cheap, easy to handle
14 and easy to stack. They go right to FSM1000 flat-sorting machines.

15
16 There are other alternatives as well. I have had conversations with USPS Senior
17 Vice President for Operations John Rapp, in which he indicated that all
18 newspaper mail for delivery beyond the local area could be entered unsacked in
19 bundles at DDUs, and then placed into All Purpose Containers (APCs) with First-
20 class mail destined to the next SCF/ADC up the mailstream. I know of some
21 small newspapers and their post offices that already use these APCs in this
22 manner, simply dropping bundles of newspapers on a loading dock after hours
23 when the press run is complete, but the Destination Delivery Unit is not yet open.
24 Other newspapers are placed in canvas or plastic hampers, another type of
25 rolling stock used to transport mail between postal facilities.

26
27 Also, with the new APPS (Automated Package Processing System) bundle
28 sorting machines scheduled for deployment in 2005-2006, USPS will be even
29 better prepared to handle bundles, without either sacks or pallets. In that
30 situation, a bundle could arrive at an ADC in an APC, be rolled directly to the

1 APPS machine and sent on to its next destination in whatever container that
2 ADC is using for its next shipments.

3

4 Thus, there is light at the end of this tunnel. But we are not there yet, and once
5 we find the optimal solution, it may take 12 to 18 months for an industry like ours,
6 with its small companies and constant publications deadlines, to make the shift.
7 But I do believe we are looking at some promising alternatives.

8

9 **III. The relief requested in this case would be devastating to small**
10 **newspapers over the short term.**

11

12 While I do believe better containers than sacks will come into use if USPS
13 decides to put some momentum behind forcing a change, it is clear that today,
14 newspapers are stuck with sacks until USPS has the will to liberalize its rules.

15

16 Witness Crews has looked at one newspaper's predicament.

17

18 I looked at several aspects of this proposal, and I find that its impact would be
19 severe. I want to be clear that the analytical tool provided by the complainants is
20 not a simple one to use. Because it is originally designed for use with mail.dat
21 files, I had to request an easier version from the Time Warner expert in order to
22 do any analysis. It was graciously supplied. I made a wholehearted effort over
23 two weekends to test the Landmark periodicals mail against the Time Warner
24 tool, and I must say I found the exercise frustrating and time-consuming. I am
25 considerably more deft at using postal rates and sortation schemes than the
26 average publisher, and I had a lot of trouble coming up with even a rough guess
27 for purposes of this testimony. So I did not ask any other NNA publishers to try
28 it. I think if periodicals rates get this complicated, we may see a considerable
29 exile from the mailstream.

30

1 That said, I did take a close look at some of the proposed rates advantages and
 2 disadvantages. They do not cover within county rates, of course, and I have
 3 some concern that these rates—which NNA considers essential to the survival of
 4 community newspapers—are inevitably going to be affected if the proposed rates
 5 are accepted. I looked only at outside county rates.

6
 7 My "model" weekly with 573 copies and 564 addressed pieces outside the
 8 county, *Cynthiana Democrat* (KY) would experience an increase on those pieces
 9 under T-W proposal from \$209 to \$363, +\$154 or 74%, but only if automation
 10 rates are retained. (As proposed, they couldn't be since most newspapers are not
 11 AFSM100 compatible.) Under that scenario, with no auto, costs go up to \$389,
 12 +\$180, or 86%. That's the impact of the proposal, to the best of my ability to
 13 calculate it right, which I believe I did. Weight was .5425 lbs. at 45% paid
 14 advertising. The weekly has 1,898 addressed pieces in-county, 1989 total in-
 15 county.

16
 17 Some NNA newspapers might benefit to some degree, if they have only within
 18 county and carrier-routed, DDU-entered outside county mail. But newspapers
 19 that would see the most harm would be:

- 20
 21 • Newspapers that have significant snow-bird or seasonal
 22 readership, and must hang onto readers as they come and go from
 23 the community;
- 24
 25 • Newspapers that depend upon long-distance readers, such as
 26 those in aging communities where residents may have moved
 27 away, but maintain ties to the community; college students, and
 28
- 29 • Newspapers that publish niche products in order to generate the
 30 revenue that keeps the company alive. My own company publishes
 31 eight college sports fan publications, in addition to community

1 newspapers, but NNA has members who publish antique traders,
2 hobby newsletters, children's magazines, Civil War buffs' journals
3 and other niche newspapers that may serve a regional or national
4 audience. While these may not be community newspapers by the
5 strictest definition, they serve a community of topical interest, and
6 the economics of community newspapering these days are
7 sufficiently challenging that I believe many companies are being
8 forced to stretch outside their traditions to survive with such
9 specialty publications. Clearly any of these publications would be
10 small, low-density periodicals whose mailing characteristics would
11 be like those of community newspapers out-of-town readership—
12 and hit hard by the proposed rates.

13
14 **IV. NNA is concerned about the precedent this case would set.**

15
16 Although my testimony is directed primarily toward the impact of the sack
17 charges proposed in this case, I have considerable concern about the posture of
18 this case. As NNA's Postal Committee chairman, its most frequent witness, and
19 advisor to the NNA directors, I must testify on the impact of this case, as
20 opposed to the rates proposed in this case.

21
22 Even if I believed the rates proposed here would be beneficial, I would have
23 concern about the manner in which they are being suggested. As a postal policy
24 expert with nearly 30 years of experience, it would worry me a great deal if a
25 group of large mailers could petition this Commission for a better deal any time it
26 decided it was unhappy.

27
28 NNA has noted numerous times for this Commission the extreme challenge a
29 small organization faces in appearing before it in cases like the one here. Since I
30 have been NNA's postal committee chairman, I have seen smaller publishers
31 and publishers' groups gradually fall off the edge of the platform of postal litigants

1 before this commission. I can remember, for example, when the Red Tag
2 Publishers' Association, the Small Business Legislative Council and the
3 Association of Paid Circulation Publications were all regular parties. One by one,
4 they have disappeared from these cases, and the Commission has consequently
5 been deprived of their input.

6
7 It is no small matter for an organization to participate in matters before this
8 Commission. Unlike the 1970s, when NNA first appeared, the cases have
9 become increasingly complex and time consuming. Matters of policy have given
10 way to sophisticated economic theory. The need to constantly monitor the
11 Commission's website, alone, generates quite a bit of expense—but litigation can
12 tie up an association's budget for a year or more.

13
14 Thus, the notion that the equivalent of a rate case could be established whenever
15 a well-resourced party decided to complain is chilling, to say the least. While I
16 would not wish to deny any party its due process, I also believe that this
17 Commission must be careful not to open the complaint docket to competing
18 theories of rate setting that should be instead proposed during the regular
19 intervenors' testimony in omnibus rate cases. The Commission's consideration
20 of this case must include, in my view, deliberation over the terms in which it will
21 allow a rate schedule to be hauled before the Commission by aggrieved mailers.
22 Rate stability is at issue, here, but from the perspective of a small mailer
23 association, also at issue is the possibility of litigating the smaller mailers into
24 silence.

25 26 **V. Conclusion**

27
28 My testimony focuses primarily upon sacks because that proposed rate charge
29 probably hits our members the hardest of all the changes suggested by the
30 complainants. Other aspects may be of concern, as well, including bundle
31 charges, and the very question about reviewing rates in a complaint case.

1

2 The most critical aspect of this case for community newspapers, however, is
3 about the sacks. And I agree that eliminating sacks from the mailstream would be
4 a positive step for mailers and for the Postal Service. Today though, sacks are
5 indispensable because the alternatives are unworkable or unavailable. If this
6 case were brought in 2006 or 2007 when USPS presumably will have the APPS
7 machine in operation, and possibly will have developed the use of tubs or APCs,
8 complainants might have a legitimate concern that mailers had alternatives
9 available and simply were not using them. Today, that is clearly not the case.

DECLARATION

I, Max Heath, declare under penalty of perjury that the foregoing testimony is true and accurate to the best of my knowledge, information, and belief.

A handwritten signature in cursive script that reads "Max Heath". The signature is written in black ink and is positioned above a horizontal line.

Max Heath

September 9, 2004

Certificate of Service

I hereby certify that I have filed the foregoing document online in accordance with the Commission's Rules of Practice.



Tonda F. Rush
Counsel for National Newspaper
Association

September 9, 2004

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Complaint of Time Warner Inc. et al.)
Concerning Periodicals Rates)

Docket No.C2004-1

DECLARATION OF MAX HEATH

I, Max Heath, declare under penalty of perjury, that the direct testimony of Max Heath on behalf of National Newspaper Association, NNA T1, in the above captioned docket was prepared by me or under my direction and that if I were to give this testimony orally before the Commission today, my testimony would be the same.

I further declare that responses to interrogatories that have been filed by NNA in this case were prepared by me or under my direction and if I were to give these responses orally before the Commission today, my responses would be the same.



Max Heath

Date: September 9, 2004

National Newspaper Association
Institutional

Docket No. C2004-1

- 2 -

TW et al./NNA-1 Please provide a list of NNA members and a list of the publications owned or published by each member or its affiliates, identifying the city or town in which each publication has its office of publication.

RESPONSE:

A list of NNA membership as of June 30, 2004, is being filed as a Category 4 library reference, NNA-LR-1.

Docket No. C2004-1

- 4 -

TW et al./NNA-3 Please confirm that NNA's website contains (or contained as of July 21, 2004) an item captioned "Pub Aux changes frequency, distribution," which states in part:

"For 139 years, Publishers' Auxiliary readers have looked to 'the newspaper industry's oldest newspaper' for the latest in industry news, changes in postal and governmental policies affecting newspapers, association news, and classified and display advertising. In the near future, readers will depend on Pub Aux for all those features, but they now get them electronically and in print, and with increased frequency.

"On July 1, 2001, National Newspaper Association members and Pub Aux subscribers started receiving a weekly e-mail digest called Electronic Pub Aux and an enhanced monthly print edition of Publishers' Auxiliary.

"Under the new publication schedule, subscribers receive Electronic Pub Aux on Thursdays containing a news digest of the latest industry and national news affecting newspapers, with links to original sources for those wanting to read more. Readers get the latest news and information from NNA on new programs and member benefits. "

RESPONSE:

Confirmed.

TW et al./NNA-4 Please confirm that NNA's website contains (or contained as of July 21, 2004) an item captioned "National Newspaper Association Welcomes MediaNews Group's Community Newspapers," which states in part:

"MediaNews Group, with corporate offices in Denver, is one of the largest newspaper companies in the United States, with papers situated throughout California, the Rocky Mountain region and the Northeast. The company is privately owned and operated. Each of its newspapers maintains a web site focused on local news content. These web sites are hosted by MediaNews Group Interactive and are aggregated along with its content under the umbrella site www.newschoice.com."

RESPONSE:

Confirmed.

TW, Conde Nast, Newsweek, RDA, and TV Guide

Halstein Stralberg
(TW et al.-T-2)

RECEIVED**USPS/TW et al.-T2-27**
Page 1 of 1**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
THE UNITED STATES POSTAL SERVICE**2004 OCT 18 PM 3:35
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

USPS/TW et al.-T2-27. In your response to USPS/TW et al.-T2-7(a) you state, "Some years ago when I was able to compare productivity rates in many different facilities, it appeared that the small facilities were achieving higher productivity rates, especially in manual operations. I used to conclude that this discrepancy had more to do with stability and morale of the workforce in more rural locations than with volume and such."

(a) Please confirm that when a clerk performs a manual sortation at a small facility, such as a delivery unit, he or she must be trained on the "scheme" for the ZIP Code(s) within that delivery unit. In other words, the clerk must be able to look at the address for a given mail piece and know which carrier is responsible for delivering that mail piece. If not confirmed, please explain.

(b) Please confirm that as the Postal Service has automated letter and flat operations over the last decade the number of employees with scheme skills in larger plants has decreased, as operations that formerly required scheme knowledge (e.g., LSMs, FSM881s, etc.) were no longer required. If not confirmed, please explain.

USPS/TW et al.-T2-27. Please note that in the part that you quote from my response to USPS/TW et al.-T2-7(a), I was referring also to large versus small SCF's and to sorting operations other than incoming secondary, e.g., incoming or outgoing primary.

a. Confirmed that when incoming secondary sorting is performed manually, it requires scheme knowledge. This is of course also true when incoming secondary sorting is performed manually in a large facility.

b. I do not possess any statistic showing the number of employees with scheme knowledge in different periods. However, it is my impression that the number of such employees has decreased substantially.

DECLARATION

I, Halstein Stralberg, declare under penalty of perjury that the foregoing answer is true and correct, to the best of my knowledge, information and belief.

Halstein Stralberg

Date: 10-29, 2004

TW, Conde Nast, Newsweek, RDA, and TV Guide

Institutional

Response of Time Warner Inc. to POIR No. 1, Question 2

POIR 1, QUESTION 2

TW et al.-T-1, at page 17, in discussing various mailing-related practices states: "It is not reasonable to expect publishers, or printers, or anyone else to consider costs that do not affect their bank accounts." Please describe, and quantify to the extent possible, how the proposed rate schedule might alter the mailing profiles of (a) Sports Illustrated for Kids; (b) Reader's Digest (the magazine); (c) Vogue; (d) TV Guide; and (e) Newsweek. Please fully explain any assumptions underlying your descriptions.

RESPONSE OF TIME WARNER INC.

- A) Sports Illustrated for Kids (SIFK) would most likely alter its mailing profile as follows if the proposed rate schedule were implemented:
- 1) Today's rate structure does not provide an incentive for mailers to maximize drop shipping, since only a portion of the magazine's pound rate is zone based. If the pound rate were zoned for the entire weight of the magazine, SIFK would expand its number of entry points. Today, its main file is distributed through the Quad Graphics pool to 194 entry points. If the proposed rates were implemented, Time Inc. and Quad Graphics would perform an entry point analysis to determine if additional entry points could be opened. This analysis would focus on the differential between the rate reduction that could be achieved by going to any additional entry points and the increased transportation costs that would be incurred in doing so. If the analysis yields a net savings, additional entries will be opened.
 - 2) In Docket No. R2000-1, James O'Brien submitted testimony on behalf of the Alliance of Nonprofit Mailers, American Business Media, Coalition of

Response of Time Warner Inc. to POIR No. 1, Question 2

Religious Press Associations, Dow Jones & Company, Inc; The McGraw-Hill Companies, Inc; the National Newspaper Association, and Time Warner Inc. In this testimony he described the conclusions of a Mailing Industry Task Force (MITF). Two of the MITF's conclusions relate to presort parameters and the way that mailers prepare their products, namely Issue 2: Optimization of containerization can help reduce costs, and Issue 15: The Periodicals rate structure should be reviewed to ensure that it is consistent with the overall Periodicals processing strategy and induces appropriate mailer behavior.¹ SIFK would reconfigure its presort parameters to increase the number of pallets and reduce the number of sacks it deposits into the mail system. These parameters reside within the postal sortation system at Time Customer Service. The exact changes in the parameters would be determined by a computer analysis of the comparative effects of the universe of possible individual changes to minimum bundle sizes and pallet weights.

- 3) Under the existing rate structure, SIFK does not participate in co-mailing and drop shipping of its supplemental mailings, because it is not cost effective. If the proposed rates were implemented, SIFK would co-mail its

¹ Docket No. R2000-1, Direct Testimony of James O'Brien On Behalf Of Alliance of Nonprofit Mailers, American Business Media, Coalition of Religious Press Associations, Dow Jones & Company, Inc., Magazine Publishers of America, Inc., The McGraw-Hill Companies, Inc., National Newspaper Association and Time Warner Inc. (TW-T-2), Tr. 24/11173-74 (pp. 5-6), 11189 (p. 21).

Response of Time Warner Inc. to POIR No. 1, Question 2

supplemental mailings to reduce sacks, improve presort, and shift as many of these copies as possible from a plant entry to a remote entry closer to the destination.

- 4) For the reasons cited in item #2 above, SIFK would also investigate the potential to co-mail its main file run to reduce sacks, improve presort, and increase drop shipping.

Response of Condé Nast to POIR No. 1, Question 2

POIR 1, QUESTION 2

TW et al.-T-1, at page 17, in discussing various mailing-related practices states: "It is not reasonable to expect publishers, or printers, or anyone else to consider costs that do not affect their bank accounts." Please describe, and quantify to the extent possible, how the proposed rate schedule might alter the mailing profiles of (a) Sports Illustrated for Kids; (b) Reader's Digest (the magazine); (c) Vogue; (d) TV Guide; and (e) Newsweek. Please fully explain any assumptions underlying your descriptions.

RESPONSE OF CONDE NAST

It is our belief that the proposed rate schedule would allow us to initiate comailing of Vogue's supplemental copy mailings. These mailings are currently mailed by themselves (no comailing currently performed as we do for Vogue's mainfile copies) and are all entered at the printers mailing facility in Flora IL.

Our supplemental mailings are our least sophisticated mail as they are not drop shipped, not carrier routed and much of the mail is prepared in sacks.

The rate incentives offered by the proposed rates would allow us to convert these smaller mailings into something more comparable to the characteristics of our large monthly mailing of Vogues mainfile copies.

This would result in more pallets, fewer sacks , mail entered much closer to destination at lower cost .This would also result in better service to our newest subscribers.

Though the question asked pertained to only Vogue the same response could be given for almost all of our consumer magazine titles .

Response of Newsweek, Inc. to POIR No. 1, Question 2POIR 1, QUESTION 2

TW et al.-T-1, at page 17, in discussing various mailing-related practices states: "It is not reasonable to expect publishers, or printers, or anyone else to consider costs that do not affect their bank accounts." Please describe, and quantify to the extent possible, how the proposed rate schedule might alter the mailing profiles of (a) Sports Illustrated for Kids; (b) Reader's Digest (the magazine); (c) Vogue; (d) TV Guide; and (e) Newsweek. Please fully explain any assumptions underlying your descriptions.

RESPONSE OF NEWSWEEK, INC.

Newsweek would look at several areas to alter our mailing profiles:

Point of Entry

Though impossible to estimate the quantity at this time, additional entry points would be opened for several reasons.

First, as a result of the total weight of the magazine being based on zoned rates, additional reductions in cost would be realized the deeper the magazines are entered into the postal delivery network.

Secondly, the per pallet and sack costs are reduced when they are entered into the facility that processes that pallet or sack.. An example would be a SCF pallet entered into its DSCF.

Together these reductions in cost would be used to offset the additional truck cost to deliver the magazines to the new entries which allows us to then claim the destination entry pallet and SCF piece discounts.

Response of Newsweek, Inc. to POIR No. 1, Question 2

Number and Type of Containers

We believe we would realize a reduction in the number of sacks and pallets and more mail being delivered directly to the postal facility that processes it.

Since each sack or pallet used would have a cost assigned to it, our goal would be to reduce as many sacks and pallets as possible and make the lowest cost sacks and pallets possible. The current rate structure offers little incentive to do this.

As an example, we can now drop an SCF pallet into an ADC with little negative cost impact.. Under the proposed rates we would pay more for that SCF pallet to be dropped at that ADC. As a result we would examine the possibilities of either trucking that SCF pallet to the DSCF or eliminating the SCF pallet, and making an DADC pallet and continuing to drop at that ADC. These rates give the publisher incentive to make up and deposit magazines according to how and where the Postal Service processes it.

Even though less than 1 % of Newsweek is sacked we would try to find ways to eliminate those remaining sacks. As stated above there is presently little incentive to do this but under the proposed rates the cost to use sacks will be expensive when compared to pallets.

Additional Zip Plus Four Coded Addresses

As a result of the reduction in the carrier route rate we would try to increase the number of copies that qualify for this rate. Since very few addresses can be carrier route coded without a zip plus four code, our first step would be to improve the quality of the address so that a zip plus four code can be appended. This would

Response of Newsweek, Inc. to POIR No. 1, Question 2

also have a positive effect on first class and standard as these addresses are used to send out invoices, promotions and renewals.

Number of Mail Streams

There are times when we segment our mail list to meet the needs of our circulation group or advertisers. These are usually small quantities that will pay more postage under the proposed rates. Our goal would be to minimize any segmentation of the mail stream by reviewing those programs, and using manufacturing technology to maintain a single mail stream as much as possible.

In conclusion, this new rate structure gives publishers incentives to examine their mail preparation in great detail. The result being more magazines will be prepared in the most efficient manner for the Postal Service to handle, and more will be delivered directly to the facility where they should be processed.

Response of Reader's Digest Association, Inc. to POIR No. 1, Question 2POIR 1, QUESTION 2

TW et al.-T-1, at page 17, in discussing various mailing-related practices states: "It is not reasonable to expect publishers, or printers, or anyone else to consider costs that do not affect their bank accounts." Please describe, and quantify to the extent possible, how the proposed rate schedule might alter the mailing profiles of (a) Sports Illustrated for Kids; (b) Reader's Digest (the magazine); (c) Vogue; (d) TV Guide; and (e) Newsweek. Please fully explain any assumptions underlying your descriptions.

RESPONSE OF READER'S DIGEST ASSOCIATION, INC.

Any modification in rates would cause a prudent business to review every aspect of its operational business model in order to optimize results. This is particularly so with respect to the proposed rate schedule, where postal processes have a direct correlation to postal rates charged. The following action plans would be instituted not only for Reader's Digest magazine but also for all of the 17 other Periodicals titles currently published by RDA:

- Optimize drop-ship program. Coordinate activities between the fulfillment house, printer, and third-party logistics provider to enhance the drop-ship program, recognizing zoned editorial incentives. Open additional SCF entry points where appropriate. Depending on size of incentives, DDU delivery may be possible.
- Improve system capabilities at the fulfillment house to reduce the number of mail streams, thereby improving sortation levels, increasing palletization, and reducing postal sacks.

Response of Reader's Digest Association, Inc. to POIR No. 1, Question 2

- Accelerate a co-palletization program to encompass all Periodicals titles in an effort to further eliminate postal sacks and maximize drop-ship opportunities.
- Partner with printers to develop capital investment strategies to expand mail-line functionality to reduce postal sacks while simultaneously expanding advertising options.
- Expand co-mailing operations. Modify multiple periodical closing schedules where appropriate in order to optimize distribution objectives.
- Analyze paper basis weight purchasing options to favorably impact drop-ship incentives.

Response of TV Guide Magazine Group, Inc. to POIR No. 1, Question 2POIR 1, QUESTION 2

TW et al.-T-1, at page 17, in discussing various mailing-related practices states: "It is not reasonable to expect publishers, or printers, or anyone else to consider costs that do not affect their bank accounts." Please describe, and quantify to the extent possible, how the proposed rate schedule might alter the mailing profiles of (a) Sports Illustrated for Kids; (b) Reader's Digest (the magazine); (c) Vogue; (d) TV Guide; and (e) Newsweek. Please fully explain any assumptions underlying your descriptions.

RESPONSE OF TV GUIDE MAGAZINE GROUP, INC.

- 1) In the current environment it is not cost effective for TV Guide to go directly to the DDUs. DDU delivery would reduce our current average rate of .1583 cents per copy by only an estimated .022 cents. Our cost for this additional DDU delivery would far outweigh the benefits. Currently, we distribute 98.79% of our 6,601,000 copies on pallets, of which 5,853,000 go directly to 228 SCFs. In the new proposed environment we would get a deeper discount for DDU delivery, which would allow us to deliver the pallets directly to the DDU.
- 2) Over the past few months we have aggressively reduced our sacked mail, which has provided a substantial benefit to the Postal Service but very little financial benefit to us in return. The current rate structure provides little incentive to reduce sacks, even though it would give relief to USPS. In the new proposed changes we would see an incentive to reduce sacks.

U.S. News & World Report, L.P.

**Michael John Armstrong
(USNews-T-1)**

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-1

ABM/USN -T1-1. With reference to your testimony at page 1, lines 22-24, please describe how you changed your mailing practices to take advantage of: (a) carrier route piece rates, (b) barcoding, (c) ADC entries, (d) palletization.

ABM/USN – T1-1

a) To take advantage of then-new carrier route piece rates in the early 1980s, U.S. News moved to lower minimum per-bundle copy counts in our binderies to increase the proportion of copies that qualified for the carrier route discount.

b) When bar-code discounts were introduced in the summer of 1992, the presort software used by our fulfillment house was unable to prepare our mail so it qualified for these discounts. In response, U.S. News brought its entire presort program in-house in the fall and winter of 1992, switched to a new presort software, and, by March 1993, was mailing copies that qualified for automation bar-code discounts.

c) The discounts related to DADC entry gave us sufficient incentive to open some new postal entries and caused us to shift where we enter some non-DSCF copies. We ship non-destination-entry copies from the printing plants to a variety of Periodicals postal facilities to ensure timely delivery. Before the DADC discount was enacted, we had no guidance from the Postal Service -- other than zone-skipping discounts that, for our magazine, are minimal -- regarding where to enter these copies. Therefore, we had to make our best guesses based on geography and our understanding of the Postal Service's transportation network. When the DADC rates were enacted, we found that we could change the entry point for some of the non-DSCF copies to other existing entry points and qualify for the DADC discount (and, later, the dropship-pallet discount). For example, we enter mail in Santa Ana, California and Los Angeles, California but not in Anaheim, California. We used to enter Anaheim copies in Santa Ana but switched them to Los Angeles because that is where the ADC for Anaheim is situated.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-1

d) The palletization discounts caused us to adjust how we segmented our subscriber file by regions, creating fewer, larger segments in a way that causes fewer copies to be sacked.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-2

ABM/USN -T1-2.

(a) Who specifically performed the analysis that showed that U.S. News would enjoy a 10.4% discount under the proposed rates with no change in mail preparation.

(b) What was the before and after per copy postage?

ABM/USN – T1-2

a) U.S. News employees did the analysis with the Access tool created by the Complainants.

b) For consistency, we derived the data in response to this question from the test issue referred to at page one, line 25 of the testimony. The postage for the test issue using current rates was 19.9 cents per copy. The postage under the proposed rates would be 17.8 cents per copy.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-3

ABM/USN -T1-3.

(a) What percentage of the copies in the main file and in supplemental mailings is now palletized?

(b) approximately how many sacks do you now use to mail your main file and your supplemental mailings?

(c) What sack minimum(s) do you set for your sacked mail?

ABM/USN – T1-3

For consistency, we derived the data in response to this question from the test issue referred to at page one, line 25 of the testimony. We do not prepare supplemental mailings.

a) 98.3 percent of the copies were palletized.

b) 966 sacks.

c) a minimum of 24 pieces per sack for 5-digit, 3-digit, and SCF sacks;
six pieces for ADC sacks.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-4

ABM/USN -T1-4. Please explain in greater detail how you would presort addresses in ways that would reduce by half the number of pallets and sacks, as stated at page 2, lines 5-6, and state (separately) the number of pallets and sacks before the presort change and the number of pallets and sacks after the presort change.

ABM/USN – T1-4

To illustrate, we would change the mailing parameters as follows:

- We would suppress 3-digit pallets, causing instead the creation of SCF pallets.
- We would set the minimum weight for SCF pallets at 500 pounds but keep the minimum for ADC pallets at 250 pounds.
- We would not allow regional versioning of the magazine to fragment our containerization.

We applied these parameters to a test issue. The result was that the number of sacks decreased from 966 to 452 and that the number of pallets decreased from 773 to 524. We believe there may be ways to reduce the number of containers even further, such as by suppressing SCF containers in some cases.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-5

ABM/USN -T1-5. If as you state at page 2, lines 10-12, it would be "more efficient for all concerned" if the Postal Service handled fewer containers, along with associated adjustments in bundle handling and piece sorting, why are new rate incentives necessary for "all concerned" to take the steps that would lead to such greater efficiency?

ABM/USN – T1-5

Like most for-profit businesses, we seek to maximize the profitability of our firm, in part by minimizing costs. We invest our employees' time in projects that will yield a savings at least commensurate to the cost of that time. As I stated in my testimony, Periodicals rates give us insufficient incentive to do the computer programming, testing, and other measures that would be required.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-6

ABM/USN -T1-6. Is the 3% additional saving you say is available (at page 2, lines 2-3) net of the added costs to U.S. News of additional sorting, new shipping patterns and other changes? If not, what portion of this saving would be used to pay for these changes?

ABM/USN – T1-6

Yes.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-7

ABM/USN -T1-7.

- (a) With reference to the 250,000 copies not now eligible for destination discounts, where are those copies now entered?
- (b) How do current rates "discourage entering Periodicals at BMCs" ?
- (c) How do current regulations "discourage entering Periodicals at BMCs" ?
- (d) Why do current regulations "discourage entering Periodicals at BMCs" ?

ABM/USN – T1-7

a) Some are already entered at a BMC that doubles as a Periodicals facility or at the Periodicals ADC in the same city as a BMC. The others are entered at other nearby Periodicals ADCs, which in many cases are closer to the destination than the BMC.

b) In most cases we cannot achieve dropship discounts for Periodicals entered at BMCs. Current rates provide no incentive to enter Periodicals at a BMC unless it doubles as a Periodicals DDU, SCF, or ADC.

c) Most BMCs do not accept Periodicals.

d) We do not understand, and cannot speculate, why current Periodicals rates do not include BMC discounts or why BMCs generally do not accept Periodicals. It seems to us that this flaw in Periodicals rates is especially harmful to small publications that lack the volume to justify drop shipments to ADCs.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-8

ABM/USN -T1-8. You state that co-mailing at the proposed rates would be attractive. Is co-mailing at today's rates attractive? If not, why not?

ABM/USN – T1-8

Co-mailing at today's rates would reduce our postage. The incentives, however, have generally been insufficient to entice printers into co-mailing a weekly magazine with 2 million subscribers and multiple regional and demographic versions. There is no incentive to co-mail approximately three quarters of our copies because they are already carrier-route sorted and palletized.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-9

ABM/USN -T1-9. If U.S. News would save postage by co-mailing at today's rates but chooses not to co-mail, please explain the considerations that led you not to co-mail.

ABM/USN – T1-9

The hurdles to US News co-mailing can be surmounted, but not easily and not without cost. The operational challenges include:

- the need to presort the consolidated mailing on a very short schedule;
- the need to organize the production of multiple demographic and geographic versions in the bindery and control their integration into a consolidated mail stream;
- the need to modify our publishing calendar to limit the number of different demographic versions in any single issue; and
- the need to adapt planning and communications systems to meet the needs of a more complex bind/mail/ship operation.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-10

ABM/USN -T1-10. You state at page 3, lines 6-10, that co-mailing your publication would mean that your "printers" would "need to make a significant investment in large capacity multi-mailing equipment." With respect to this statement, please:

- (a) identify your printers and the volume printed by each at each location,
- (b) quantify the investment they would have to make,
- (c) describe in detail your "current co-mailing strategy," including the location at which such co-mailing takes place, the number of U.S. News pieces in each comailing pool, the percentage of each pool that consists of U.S. News pieces, and the number of other publications with which U.S. News is co-mailed in each pool.

ABM/USN – T1-10

- a) Our current production configuration is as follows:
 - Quebecor World, Merced, California: approximately 465,000 copies per issue.
 - Quad/Graphics, Hartford, Wisconsin: approximately 1,765,000 copies per issue.
- b) We do not know the specific amounts.
- c) Our strategy is to find printers interested in co-mailing our copies, especially to areas where we have relatively low carrier-route percentages. We recently co-mailed some copies of our magazine for the first time. Some 90,566 copies of the magazine were co-mailed in Sussex, Wisconsin. They represented nearly 17 percent of the copies in the co-mail pool, which included 17 other titles or versions in one portion and 16 in another.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-11

ABM/USN -T1-11. Please describe and state the results of all studies you have done to support the statement at page 3, lines 16-18 that the proposed rates would make co-mailing of U.S. News attractive even in areas with a high level of carrier route sortation.

ABM/USN – T1-11

We did not conduct any formal studies. Our statements were based on the observation that the Complainants' proposal, unlike current rates, would include per-bundle and per-container charges while maintaining the incentives to improve piece sortation. Savings would be available, therefore, for co-mailing copies already eligible for carrier-route sortation because of the resulting consolidation of (and reduction in the number of) bundles and containers in the consolidated mail stream.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-12

ABM/USN -T1-12. Would co-mailing of U.S. News be attractive if it resulted in delivery to readers one day later than would otherwise be the case?

ABM/USN – T1-12

We would not undertake the co-mailing of our magazine if we thought that doing so would delay delivery by one day. We see no reason, however, that co-mailing should cause such delays in delivery. Co-mailing improves sortation and containerization in ways that should speed delivery and provides the economies of scale to reach postal entries that a single publication could not reach economically on its own.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-13

ABM/USN -T1-13.

(a) With respect to the main file mailing, when does U.S. News close editorial, when is it printed, when does it leave the printing plant(s) and what is your expected in-home delivery day?

(b) Is it your understanding that the time frames between closing editorial, printing, leaving the printing plant and expected in-home delivery are different for U.S. News than they are for the other major news weeklies? Please explain anything but a "no" answer.

ABM/USN – T1-13

a) We close editorially at 8:00 PM eastern standard time Friday and start printing by 10:00 PM Friday. Dispatching begins by 4:00 AM Saturday and is complete by about 6:00 PM Sunday. The majority of our copies will be delivered in-home on Monday and Tuesday.

b) We have only hearsay knowledge of the schedules of our competition.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-14

ABM/USN -T1-14. Please explain in detail all of the reasons why you believe that, because the proposed rates would benefit Time and Newsweek more than they would benefit U.S. News, your publication would be at a "competitive disadvantage."

ABM/USN – T1-14

Time and *Newsweek's* postage savings with the proposed rates would be greater than the savings for our magazine, according to the Complainants' testimony.

Having higher relative costs than a competitor is by definition a competitive disadvantage.

RESPONSE OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS ARMSTRONG TO ABM/USN-T1-16

ABM/USN -T1-16.

(a) When you state (at page 3, lines 23-25) that the proposed rates will "ultimately be good for the entire Periodicals class of mail," are you saying that the proposed rates will ultimately be good for all Periodicals mailers?

(b) If so, please explain how the proposal will be good for any Periodicals mailers that, despite their efforts, will suffer 25% or higher rate increases as a result of the proposal.

(c) If not, please describe those mailers for whom the proposal would not be "good."

ABM/USN – T1-16

a) – c) No, we are claiming that the entire *class* of mail would benefit. We acknowledge that individual mailers that fail to respond to the new incentives -- through ignorance, unwise contractual obligations to printers, or for other reasons -- may not benefit in the short term from the proposed rates. We believe, however, that without a switch to cost-based Periodicals rates, all publishers will soon be facing exorbitant increases in postal costs.

USNews-T-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES

Docket No. C2004-1

TESTIMONY OF
MICHAEL JOHN ARMSTRONG
ON BEHALF OF INTERVENOR
U.S. NEWS & WORLD REPORT, L.P.

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September 9, 2004

1 TESTIMONY OF
2 MICHAEL JOHN ARMSTRONG
3 ON BEHALF OF
4 U.S. NEWS & WORLD REPORT, L.P.

5 My name is Michael John Armstrong and my title is Senior Vice President of
6 Operations at U.S. News & World Report, L.P. ("U.S. News"). I submit this
7 testimony in support of the proposal advanced by Time Warner et al. to base
8 Periodicals rates more directly on the Postal Service's costs, including specifically
9 the important cost drivers of the number of sacks, pallets, and bundles. This is the
10 first time U.S. News has submitted testimony before this Commission. We are doing
11 so because we firmly believe that the Complainants' proposal would cause
12 publishers to change their mailing behavior in ways that would make the Postal
13 Service more effective and improve the efficiency of overall mailing operations,
14 thereby minimizing future increases in Periodicals rates.

15 The primary business of our privately held company is publishing the weekly
16 newsmagazine *U.S. News & World Report*. Our primary competitors are *Time* and
17 *Newsweek* magazines, each of which is owned by a Complainant. We mail more
18 than 92 million copies of the magazine annually to U.S. subscribers. The U.S. Postal
19 Service is our largest vendor.

20 U.S. News has responded to increases in postal rates over the past thirty years with
21 such strategies as reducing our magazine's trim size and the basis weights of our
22 paper. We have also adapted our mailing practices many times to take advantage of
23 such rate incentives as low carrier-route piece rates, barcoding, the use of ADC
24 entries, and palletization.

25 Our analysis of a recent issue of *U.S. News & World Report* magazine using the
26 model provided by the Complainants indicates that the proposed rates would reduce

1 our Periodicals postage by 10.4 percent with no change in how we mail the
2 magazine. But the proposed rates would give us the incentive (an additional 3
3 percentage points in savings) to make a few simple changes that would reduce the
4 Postal Service's costs, including:

- 5 1. Presorting subscriber addresses in ways that would reduce by half the number of
6 pallets and sacks the Postal Service must handle. Our analysis indicates we
7 could achieve at least a 50-percent reduction in containers. We have not
8 undertaken the necessary changes because current Periodicals rates give us no
9 incentive to do the computer programming, testing, and other measures that
10 would be required. I believe it is clear beyond question that having the Postal
11 Service handle fewer sacks and pallets, along with associated adjustments in
12 bundle handling and piece sorting, would be more efficient for all concerned.
- 13 2. Switching the entry points for approximately 250,000 copies not currently eligible
14 for destination discounts to the destination Bulk Mail Centers (BMCs). Because
15 we already deliver copies to Periodicals facilities in the same cities as the BMCs,
16 we could easily add the BMCs as entries. Current rates and regulations
17 discourage entering Periodicals at BMCs. The Postal Service should be well
18 positioned to handle these sacks and pallets through the DBMCs at lower costs
19 than today. This is another opportunity to increase the Postal Service's efficiency
20 that is blocked by current Periodicals rates.

21 The changes I have just described are actions we can take on our own. Potentially
22 more important are the changes we would make in conjunction with other
23 publications. If adopted, the Complainants' rate proposal would persuade
24 publishers to drop ship more of their magazines. That, in turn, would give us more

1 opportunity to add postal entries, enabling us to reduce the Postal Service's
2 Periodicals costs.

3 Implementation of the Complainants' rate proposal would also make the co-mailing
4 of *U.S. News & World Report* magazine with other publications economically
5 attractive. Contrary to commonly held belief, being a weekly magazine is not a
6 significant hurdle to U.S. News entering into co-mail arrangements. The primary
7 operational challenge is managing many different demographic versions. For our
8 printers, this means they would need to make a significant investment in large
9 capacity multi-mailing equipment to combine many different publications and
10 versions of publications. Because about three-quarters of our copies already qualify
11 for carrier route sortation piece rates, there is virtually no incentive to co-mail them.
12 As a result, our current co-mailing strategy focuses on those markets with relatively
13 low carrier route percentages. The proposed rates would not only increase the
14 savings from promoting five-digit pieces to carrier route, they would also provide
15 incentives for consolidating various publishers' bundles and containers into fewer
16 and larger bundles and containers. That would make co-mailing of *U.S. News &*
17 *World Report* magazine with other publications economically attractive even in areas
18 with high carrier route sortation.

19 As you can see, the Complainants' proposal would give U.S. News and other
20 publishers incentives to reduce the Postal Service's costs and improve overall
21 efficiency. Please note that U.S. News supports this proposal even though it puts
22 U.S. News at a competitive disadvantage, since the proposed rates favor *Time* and
23 *Newsweek* more. Nevertheless, the proposal would help the Postal Service handle
24 periodicals more efficiently and would therefore ultimately be good for the entire
25 Periodicals class of mail.

**POSTAL RATE COMMISSION
DOCKET NO. C2004-1
COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES**

I, Michael John Armstrong, hereby declare under penalty of perjury that:

The Testimony of Michael John Armstrong on behalf of Intervenor U.S. News and World Report, L.P., denominated USNews-T-1, was prepared by me or under my direction;

Were I to give this testimony orally before the Commission, it would be the same;

The interrogatory responses filed under my name, and designated for inclusion in the record of this docket, were prepared by me or under my direction; and

Were I to respond orally to the questions appearing in the interrogatories, my answers would be the same.



Michael John Armstrong

OCTOBER 29, 2004

Date

United States Postal Service

**Michael W. Miller
(USPS-RT-1)**

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF TIME WARNER INC. ET AL.**

TW ET AL./USPS-RT1-1 Please refer to page 4, lines 24-36 of your testimony, where you reproduce one passage from Mitchell's and two from Stralberg's testimony.

- a. Has any national study been performed to determine the productivity rate (pieces per workhour) for manual flats sorting performed in associate offices, stations and branches? If yes, please describe any such study and the results obtained.
- b. Has any local or regional study been performed to determine the productivity rate (pieces per workhour) for manual flats sorting performed in associate offices, stations and branches? If yes, please describe any such study and the results obtained.
- c. Please confirm that the flats mail flow model presented in your R2001-1 testimony (USPS-T-24) and in USPS LR-J-61 assumed an hourly productivity rate of 422 flats per hour, before volume-variability adjustment, for manual incoming flats secondary distribution, which includes distribution performed at associate offices, stations and branches. If you cannot confirm, please explain fully and state the assumption that you did use in preparing that testimony and the corresponding mail flow model.
- d. Please assume that you were to present today a testimony similar to USPS-T-24 in R2001-1 and that you could use all information currently available to the Postal Service. What number would you use for manual incoming flats secondary distribution productivity? Please explain your answer fully and describe the data sources you would rely on. If you believe that you would split the manual incoming secondary flats distribution into two or more operations with different productivity rates, or use different rates for certain types of flats, then please describe your thoughts on these matters.
- e. Please confirm that the corresponding flats mail flow models presented by witness Yacobucci (USPS-T-25) in R2000-1 and witness Seckar (USPS-T-26) in R97-1 assumed a much higher manual incoming secondary distribution productivity in non-FSM facilities, including associate offices, stations and branches. Please explain why you decided to change that approach and simply use a single rate in preparing your R2001-1 testimony.
- f. Do you believe it is reasonable to assume that in today's environment flats that receive manual incoming secondary sort, even those that are sorted at associate offices, stations and branches, tend to be harder to sort than the average flat, causing a low average manual productivity rate? If so, please explain why.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF TIME WARNER INC. ET AL.**

RESPONSE TO TW ET AL./USPS-RT1-1 (CONT.):

My purpose in writing the referenced passage was not to criticize the specific productivity mentioned. Rather, it was to show that changes to the cost model inputs can lead to significantly different results.

a.b. I am not aware of any such studies having been conducted.

c. I can confirm that the 422 pieces per hour figure was included in the Periodicals cost models found in Docket No. R2001-1, USPS LR-J-61, page 60. This figure, however, was a MODS-derived figure. It therefore reflects the aggregate productivity for manual incoming secondary operations performed at MODS sites.

d. I would use an updated figure similar to that found in Docket No. R2001-1, USPS LR-J-61, page 60.

e. Confirmed. Witness Seckar relied on a manual incoming secondary productivity figure of 520 pieces per hour for "FSM Zones" and a manual incoming secondary productivity figure of 944 pieces per hour for "Non-FSM Zones." Docket No. R97-1, USPS LR-H-134, Section 8, Page 13. These figures can be traced to a table in USPS LR-H-113, page 102. The table itself actually uses the following labels: "Manual Flats - No FSM" and "Manual Flats - With FSM" and lists the MODS operation number 175-179 for each.

Witness Yacobucci relied on a manual incoming secondary productivity of 457 pieces per hour for "FSM Zones" and 846 pieces per hour for "Non-FSM Zones." Docket No. R2000-1, USPS LR-I-90, page 32. In his citations, he lists USPS LR-I-107 as the source for both figures. In looking at the productivity table found in USPS LR-I-107, the only one of the two figures cited by witness Yacobucci and shown in the table is the 456 pieces per hour figure (it is assumed the small difference is due to rounding error, or an entry error). This figure represents a "Manual Flat -- Incoming Secondary" productivity. It is unclear whether this figure represents the aggregate manual incoming secondary productivity for all MODS sites, or whether it represents the aggregate manual incoming secondary productivity for MODS sites with FSMs.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF TIME WARNER INC. ET AL.**

RESPONSE TO TW ET AL./USPS-RT1-1 (CONT.):

In preparing for Docket No. R2001-1, I made the decision to use an aggregate MODS manual incoming secondary productivity for both MODS and non-MODS sites for the following three reasons:

(1) I was not aware of any study which indicated that there were distinct differences between flats manual incoming secondary operations performed at plants and the same operations performed at delivery units. To the extent that there was a study conducted at one time, I was unable to locate the results.

(2) The Docket No. R97-1 figures actually represented the manual incoming secondary productivities at MODS FSM facilities and MODS non-FSM facilities. In the latter case, this did not correspond to a manual productivity for "associate offices, stations, or branches." Most MODS sites are fairly large facilities. For example, I was recently at the Terre Haute Processing and Distribution Facility (P&DF) in Terre Haute, IN. It did not have any FSMs, but it was also not an "associate office, station, or branch."

(3) In my field experiences, the decision as to whether manual incoming secondary operations were established at plants or the delivery unit was typically based on the presence of "scheme" skills at the plant. For some zones in which there was a shortage of scheme skills at the plant, the mail would have been processed at the delivery unit, even if a FSM incoming secondary operation was performed for that delivery unit at the plant. Conversely, there were some instances where the mail for a given station was processed manually at the plant, even though the plant did not attempt to process the mail for that same station on the FSM.

f. In Docket No. R2001-1, I used the MODS manual incoming secondary productivity as a proxy for the same operation in non-MODS sites, absent any information from studies which might have indicated otherwise. I would not expect the productivity values for all manual operations to be the same. I would think the volume processed in a given operation, the requirement that the clerk have scheme skills, the specific cases being used, the layout of the workstation, and the number of separations being performed in a given operation could all affect productivity.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF TIME WARNER INC. ET AL.**

TW ET AL./USPS-RT1-3 At pages 8-9 of your testimony, you state that LR-I-332 "was not created to support a grid rate analysis," and you attempt to link the development of LR-I-332 to the Postal Service's response, in R2000-1, to POIR 4, filed on February 25, 2000, and to PRC Order No. 1289, issued on March 28, 2000.

- a. According to the Postal Service's records, on what date was Christensen Associates authorized to start development of the model that eventually was filed as LR-I-332?
- b. According to the Postal Service's records, was there a meeting on February 10, 2000 at USPS headquarters, between representatives of the Postal Service, Christensen Associates, and the Periodicals industry to discuss the development of the model that eventually was filed as LR-I-332?
- c. Were you personally present at the meeting referred to above.

RESPONSE:

- a. Redirected to the Postal Service.
- b. Redirected to the Postal Service.
- c. No.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF TIME WARNER INC. ET AL.**

TW ET AL/USPS-RT1-4 Please refer to the chart at page 3 of your testimony.

- a. Please confirm that the cost data used in the chart are based on the Postal Service's costing methodology rather than PRC methodology. If not confirmed, please explain.
- b. Please state which version of the Postal Service's costing methodology is used for each year. For example, is FY96 represented by the FY96 CRA data using the pre-R97-1 costing methodology, or is it based on what was introduced as BY96 in the R97-1 rate case?
- c. Please provide a similar chart, using only mail processing costs rather than total costs.
- d. Please provide a similar chart, using only purchased transportation (cost segment 14) costs rather than total costs.

RESPONSE:

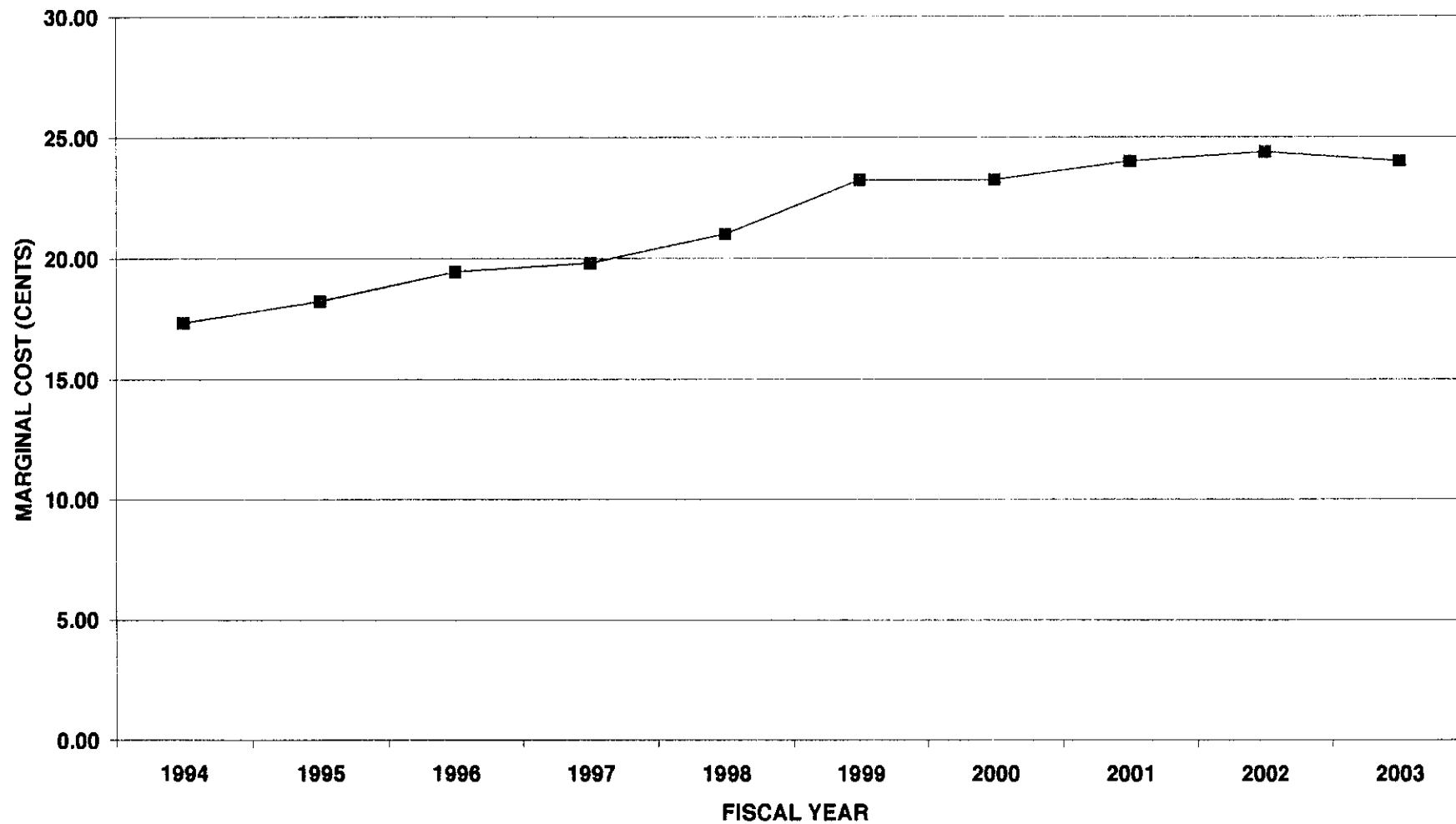
a. Confirmed.

b. The data were taken from the official Postal Service Fiscal Year versions of the CRA and Cost Segments/Components reports. The costing methodology for each Fiscal Year is described in the corresponding "Summary Description of USPS Development of Costs By Segments and Components" reports and CRA notations.

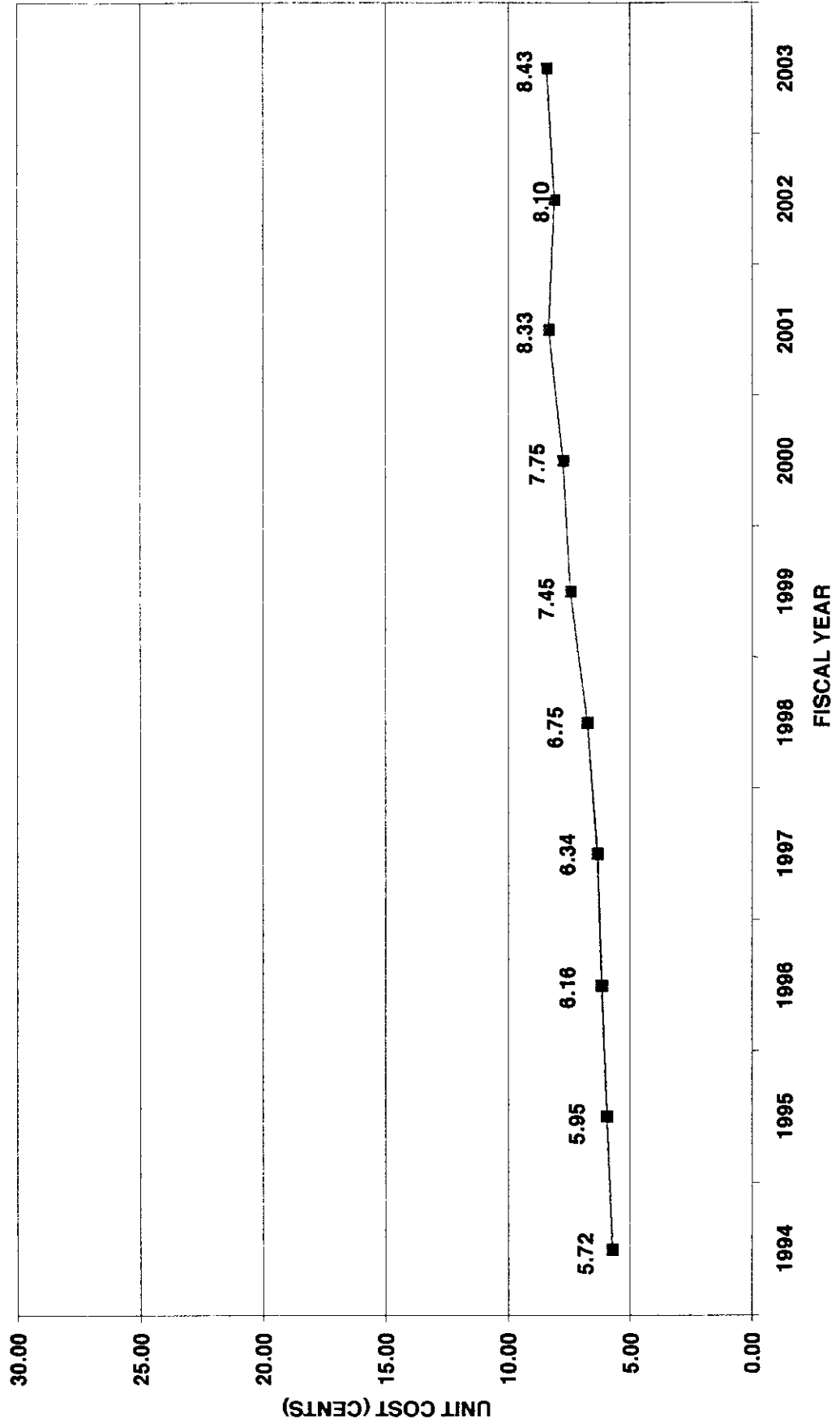
c. Mail processing costs are not tracked using these reports. As an alternative, I have plotted Cost Segment 3.1 - clerks and mailhandlers costs. Please see the attachment to this response.

d. Please see the attachment to this response.

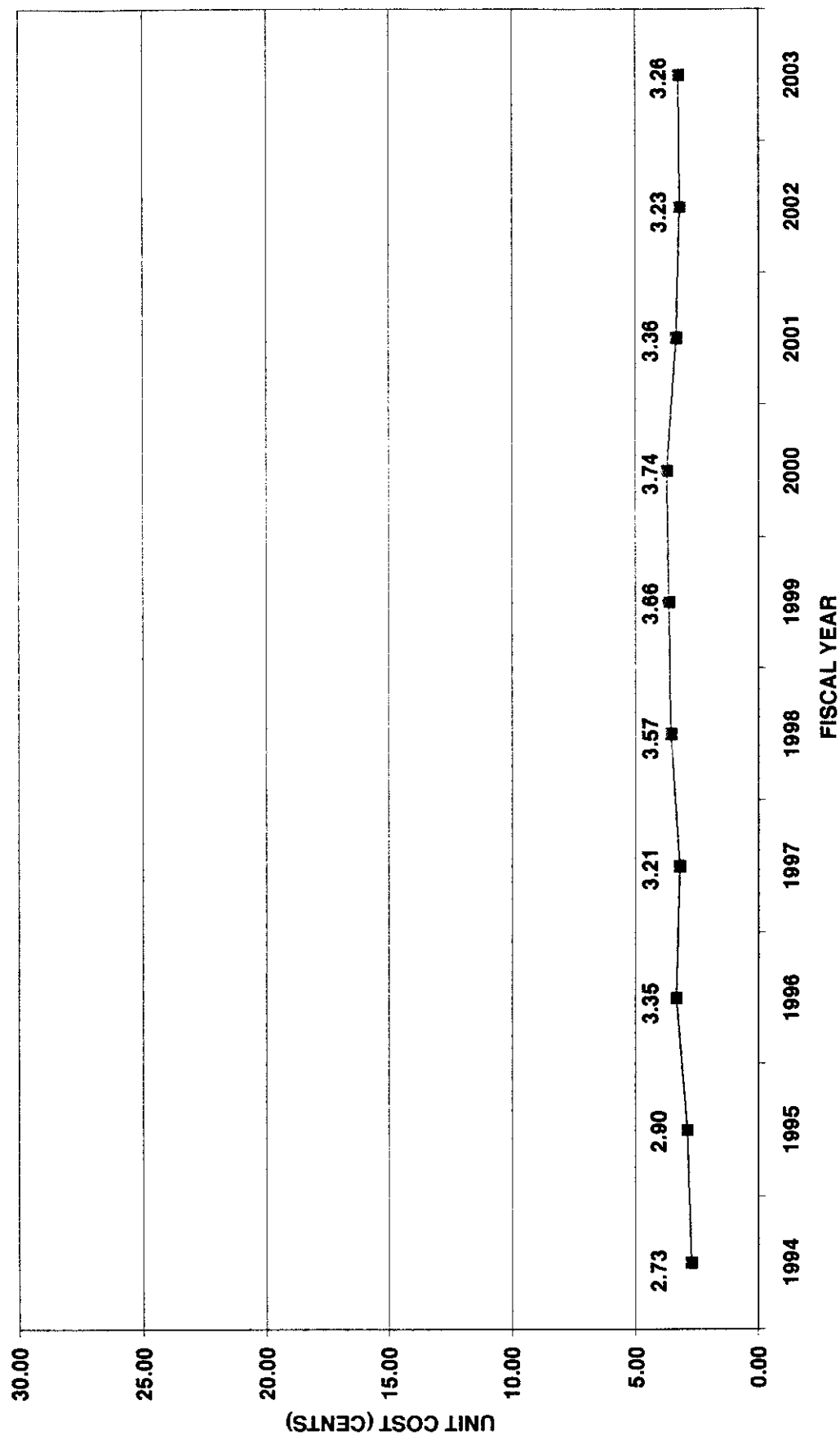
**OUTSIDE COUNTY PERIODICALS
CRA MARGINAL COST (CENTS)
FY 1994-2003**



C/S 3.1 UNIT COST (CENTS)
FY 1994 - FY 2003



C/S 14 UNIT COST (CENTS)
FY 1994 - FY 2003



OUTSIDE COUNTY PERIODICALS UNIT COSTS

<u>FISCAL YEAR</u>	<u>MARGINAL COST (CENTS)</u>	<u>FISCAL YEAR</u>	<u>C/S 3.1 UNIT COST (CENTS)</u>	<u>FISCAL YEAR</u>	<u>C/S 14 UNIT COST (CENTS)</u>
1994	17.33	1994	5.72	1994	2.73
1995	18.22	1995	5.95	1995	2.90
1996	19.44	1996	6.16	1996	3.35
1997	19.79	1997	6.34	1997	3.21
1998	21.00	1998	6.75	1998	3.57
1999	23.23	1999	7.45	1999	3.66
2000	23.22	2000	7.75	2000	3.74
2001	23.99	2001	8.33	2001	3.36
2002	24.38	2002	8.10	2002	3.23
2003	23.99	2003	8.43	2003	3.26

OUTSIDE COUNTY PERIODICALS TOTAL COSTS

FISCAL YEAR	OUT CO COST (000)	C/S 3.1 COST (000)	C/S 14 COST (000)
1994	\$1,598,095	\$527,396	\$251,624
1995	\$1,692,434	\$552,331	\$269,547
1996	\$1,797,673	\$569,439	\$309,608
1997	\$1,873,420	\$599,819	\$304,153
1998	\$1,972,751	\$634,268	\$334,952
1999	\$2,178,814	\$698,459	\$343,008
2000	\$2,198,819	\$733,848	\$354,437
2001	\$2,207,109	\$766,660	\$308,836
2002	\$2,155,145	\$716,175	\$285,107
2003	\$2,045,476	\$718,629	\$278,224

OUTSIDE COUNTY PERIODICALS RPW VOLUMES

<u>FISCAL YEAR</u>	<u>OUT CO RPW VOLUME (000)</u>
1994	9,221,232
1995	9,287,048
1996	9,248,366
1997	9,464,357
1998	9,392,886
1999	9,380,373
2000	9,467,716
2001	9,198,266
2002	8,839,847
2003	8,526,383

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF TIME WARNER INC. ET AL**

TW ET AL/USPS-RT1-5 Please refer p. 4, lines 5-19, where you list 23 factors that you believe affect Periodicals costs. For ease of reference, the 23 factors have been listed below and assigned distinct numbers. Please answer the questions that follow the list.

1. the network configuration through which the mail is processed (i.e., centralized operations versus decentralized operations, such as annexes and processing "hubs"),
 2. the building configurations through which the mail is processed,
 3. the dock configurations through which the mail is processed,
 4. the equipment available at the facilities through which the mail is processed,
 5. the methods used at the facilities through which the mail is processed,
 6. the transportation used to ship mail between postal facilities,
 7. destination entry,
 8. mail piece dimensions (length, height, and thickness),
 9. mail piece weight,
 10. mail piece volume or "cube,"
 11. container type (sack or pallet),
 12. container size,
 13. container weight,
 14. bundling materials and the associated breakage rates,
 15. bundle size,
 16. bundle weight,
 17. mail piece machinability (i.e., AFSM100 compatibility),
 18. the presence of a barcode on the mail piece,
 19. mail piece address location,
 20. mail piece return address location,
 21. mail piece "noise,"
 22. the use of polywrap, and
 23. the frequency of distribution (if, for example, "Hot 2C lists" are used to manage separate Periodicals mail streams).
- a. Please confirm that factors 1 through 6 are things that are determined entirely by decisions made by Postal Service officials and over which mailers have no control. If not confirmed, please explain.
 - b. Please confirm that bundle and container presort levels, while not on your list, are nevertheless important drivers of Periodicals costs.
 - c. Please confirm that accuracy and readability of the address and barcode, while not on your list, are nevertheless important drivers of Periodicals costs.
 - d. While mentioning destination entry (item 7), you do not list the distance between the point of entry and the destination, normally defined by zone in

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the case of Periodicals as well as some other mail classes. Please confirm that distance between entry point and final destination is an important driver of Periodicals costs.

- e. Please confirm that whether a mail piece is classified as a letter, a flat or a parcel is an important driver of Periodicals costs.
- f. Please state whether you agree that the most important impact of a mail piece's dimensions (item 8) is: (1) whether those dimensions lead to the mail piece being a letter, flat or parcel, (2) whether they lead to the mail piece being machinable and (3) their impact on total weight of the mail piece. Please explain your answer.
- g. Please explain what you mean by mail piece "noise" (item 21), how this characteristic of a mail piece is measured and how you believe it affects costs. Please provide a copy of any postal study of mail piece noise and its effect on costs.
- h. Please explain why you believe the placement of the return address (item 20) affects the cost of a Periodicals mail piece. Please also describe any studies the Postal Service may have done of the impact of return address placement on Periodicals costs.
- i. Please describe current postal regulations regarding placement of the address on the mail piece (item 19). Assume that a mailer complies with those regulations. Are there then still further cost related issues regarding exactly where (compliant with regulations) he puts the address? If yes, please explain.
- j. Please confirm that use of polywrap on a Periodicals flat can affect the machinability of the flat. Please confirm also that the Postal Service has approved various types of polywrap as consistent with AFSM-100 machinability. Besides its effect on machinability, please state what if any other cost related issues you believe exist with the use of polywrap. Please explain your reasoning.

RESPONSE:

a. I can confirm that mailers may not entirely have control over these areas, but they can influence them by virtue of the location of their plants, the type of mail they enter, the volume of mail they enter, and the like. I believe it is also an oversimplification of the situation to state that these areas are entirely within the Postal Service's control. For example, most plants are located where they are due to demographics of a specific region, access to transportation, available real estate and the associated costs, etc.

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The areas listed in items one through six vary in the field and do affect costs. The building and dock configurations can be used to illustrate this point.

For example, the Charlotte Processing and Distribution Center (P&DC)¹ is a fairly simple operation. The P&DC is housed in a building in which the work room floor is located on one level only. The dock bays are structured in an L-shaped configuration around two sides of the building.

The Palatine P&DC,² however, is structurally more complex. It contains mail processing operations on two floors. The first floor houses a SPBS and the second floor contains flats piece-distribution operations. Mail is moved between floors using elevators. Both floors contain docks which are used for both the receipt and dispatch of mail.

The Morgan P&DC is in midtown Manhattan and is even more structurally complicated.³ The P&DC actually consists of two buildings, the north and south building, which are connected by a bridge over 29th Street. The north building contains mail processing operations in the basement and on floors one through six. The south building contains mail processing operations in the basement and on floors one through three. The second and third floors are the only floors in which mail can be moved between the north and south buildings.

The Morgan P&DC dock configuration is also unique. Docks can be accessed at the sub-basement, basement and first floor levels for both the north and south buildings. The one area of the dock in which Periodicals are typically entered is accessed from 10th Street. Once the Periodicals have been unloaded, they must first be moved over two level changes on the first floor using scissor lifts⁴ before they can be routed to the appropriate next operation. Depending on the characteristics of the mail itself, the next operation could be the SPBS on the fifth floor, the manual distribution racks on the fifth

¹ Docket No. C2004-1, Tr. 1/312.

² Docket No. C2004-1, Tr. 1/198.

³ Docket No. C2004-1, Tr. 1/169.

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floor, the low cost distribution sorter on the first floor, the Periodicals preparation operation on the third floor, or the AFSM100 operation on the third floor. In cases where the next operation is on another floor, an elevator must be used.

These examples illustrate the variation that currently exists among postal facility building and dock configurations. When building and dock configurations vary, the distances containers must be moved (and the subsequent costs that will be incurred) also vary.

b. I confirm that container and bundle presort levels are also cost drivers. The list was not intended to be an exhaustive list of cost drivers.

c. I confirm that accuracy and readability of the address and barcode are also cost drivers. The list was not intended to be an exhaustive list of cost drivers.

d. I confirm that the distance between the point of entry and the destination is a cost driver. The list was not intended to be an exhaustive list of cost drivers.

e. I confirm that the shape of the mail piece is a cost driver. The list was not intended to be an exhaustive list of cost drivers.

f. These factors all influence costs. I am not aware of any study, however, in which the effect of these factors has been evaluated and compared to the other factors.

g. The term noise refers to graphics and/or printed text on mail pieces. On occasion, these mail piece attributes cause sorting problems. For example, an Optical Character Reader (OCR) could find non-address text and attempt to sort the mail piece based on what it reads, causing the mail piece to be rejected. I am not aware of any studies that have attempted to measure the impact that mail piece noise has on costs.

h. Please see Docket No. R2001-1, USPS-T-39, page 18 at 16 to 28. I am not aware of any studies that have attempted to measure the impact that return address problems have on costs.

⁴ The first floor was originally designed with multiple levels to accommodate a sack sorting machine.

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i. Postal addressing standards can be found in the Domestic Mail Manual (DMM), Section A. If a mailer is complying with postal addressing regulations, the location of the address is not as likely to have an adverse impact on costs as it might have had if the mailer had not been completely complying with postal addressing regulations.

j. It is confirmed that polywrap can affect the machinability and readability of a mail piece. It is confirmed that the Postal Service provides AFSM100 polywrap standards in DMM Section C820.4.1. There are two polywrap issues that I hear about from postal personnel when conducting field observations. The first is that polywrapped mail pieces tend to cause more jams than non-polywrapped mail pieces. The second is that the mail pieces stick together on occasion (which may cause some of the jams) due to a mild static electrical charge associated with the material. I am not aware of any studies that have measured the impact of polywrap on mail processing costs.

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TW et al./USPS-RT1-6 Your 23 cost factors listed in the preceding interrogatory include "bundling materials and the associated breakage rates" (item 14). On page 10 you refer to two studies of bundle breakage issues that were documented in Docket No. R2000-1. You defend your own use of data from those studies in the subsequent rate case (Docket No. R2001-1) while expressing doubts about the appropriateness of their use by Stralberg in his LR-I-332-based analysis presented in this case.

- a. Please confirm that the probability of a bundle breaking prematurely depends on many factors other than bundling material, including the manner in which the bundle is handled in postal facilities.
- b. Please confirm that since R2000-1 the Postal Service has introduced detailed regulations covering the manner in which flats must be bundled, including instructions for what kinds of bundling materials can be used, how those materials must be applied, limits on bundle thickness in certain cases, etc. Please confirm also that those regulations have now been in effect for some time.
- c. Are you personally familiar with the regulations just referred to?
- d. Do you believe that Periodicals and Standard flats mailers for the most part are complying with the above-mentioned regulations for bundle preparation? Please explain any negative answer.
- e. Do you believe that compliance by mailers with the above mentioned regulations has had or is likely to have had a meaningful impact on the extent to which bundles break? Please explain your answer. If the answer is that you do not think the regulations have had an impact or are likely to have had an impact, do you then conclude that the regulations are useless and might as well be eliminated?
- f. Do you believe the Postal Service considers bundle breakage to be a serious issue in today's flats processing environment?
- g. Has the Postal Service, since the 1999 study documented in LR-I-297, performed any additional study of bundle breakage in which data were collected? If yes, please identify and describe all such studies and the conclusions they reached, and provide copies of all documentation produced by all such studies.
- h. Please explain more fully why you believe it was "safe" to apply the LR-I-88 and LR-I-297 bundle breakage data in your R2001-1 analysis, which led directly to the development of postal rates for various rate categories, while you believe it is not "safe" to apply it in Stralberg's present analysis, which was intended only to demonstrate the feasibility of further disaggregating Periodicals mail processing costs by identifying the costs directly associated with the number of bundles, sacks and pallets at

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different presort levels(taking into consideration that the complainants made it clear from the beginning that they expected the particular results obtained to be modified by the use of newer postal data as they become available [see the Complaint of Time Warner Inc. et al. in this docket, filed January 12, 2004, p. 8, ¶ 4, ll. 1-3]).

RESPONSE:

a. Confirmed. The bundling materials are an important element affecting breakage, but there are other elements as well, including the handling that occurs at both mailer and Postal Service plants and the transportation methods used by mailers and the Postal Service. I also believe that the Mailers' Technical Advisory Committee (MTAC) package integrity work group found a correlation between the usage of coated cover stock and the occurrence of broken bundles.

b. Confirmed. It is my understanding that revisions to Domestic Mail Manual (DMM) Section M020 were implemented on July 1, 2001. Please see Postal Bulletin 22050 dated May 17, 2001 and the June 2001 Mailers Companion. Two instructional videos and notifications were sent to both mailers and field employees in support of this effort.

c. Yes.

d. I do not know the answer to that question. I am not aware of any studies that have measured the extent to which mailers have been complying with the regulations that went into effect on July 1, 2001.

e. Given my response to TW et al./USPS-RT1-6(d), I cannot provide any definitive answers to these questions.

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f. I regularly hear complaints about bundle breakage during the course of conducting field observations. It is not possible, however, to quantify the extent of that breakage from this anecdotal information.

g. A follow-up study was conducted in the fall of 2002. This study measured breakage rates for sacks only at two of the sites originally included in the 1999 study. Sack breakage rates were measured at the first site on November 18-20, 2002. Sack breakage rates were measured at the second site December 2-4 2002. The integrity of bundles in 327 Periodicals sacks and 491 Standard Mail sacks was evaluated. Please *see the attachment to this response.*

h. I do not believe I used the term "safe" in my testimony. I believe I indicated that the use of these data was less risky in the cost studies as they have traditionally been conducted because the goal of those studies was to measure the cost impact related to mailer prebarcoding and/or presorting efforts. In contrast, the goal of the study presented by Time Warner, et al. is to measure bundle costs. I therefore believe the use of these data presents more of a risk, given the context in which they have been used in this docket.

SACK BUNDLE BREAKAGE STUDY

<u>Facility</u>	<u>Description</u>	<u>Shrinkwrap No Straps</u>	<u>Shrinkwrap 1 Plastic Strap</u>	<u>Shrinkwrap 2 Plastic Straps</u>	<u>1 Plastic Strap</u>	<u>2 Plastic Straps</u>	<u>1 String Strap</u>	<u>2 String Straps</u>	<u>1 Rubberband Strap</u>	<u>2 Rubberband Straps</u>	<u>Total</u>
1	Total Packages	169	17	48	33	958	5	662	104	1108	3102
	Broken Packages	26	2	13	9	145	2	88	17	161	463
	Percent Broken Packages	15%	12%	27%	27%	15%	40%	13%	16%	15%	15%
2	Total Packages	258	16	42	93	378	15	44	39	195	1078
	Broken Packages	63	2	11	33	108	6	20	22	45	310
	Percent Broken Packages	25%	13%	26%	35%	29%	40%	45%	56%	23%	29%
Total	Total Packages	425	33	90	126	1334	20	706	143	1303	4180
	Broken Packages	89	4	24	42	253	8	108	39	206	773
	Percent Broken Packages	21%	12%	27%	33%	19%	40%	15%	27%	16%	18%
	Bundling Method Percentages	10%	1%	2%	3%	32%	0%	17%	3%	31%	100%

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TW et al./USPS-RT1-7 Please consider the following situation. Carrier route bundles entered on a 3-digit pallet are sorted on an SPBS at the destinating SCF into a five-digit rolling container. Assume that the bundles survive that initial sort without breaking and that the container into which they have been sorted is taken to the delivery unit (DU), where the bundles are distributed to individual carriers.

- a. Please confirm that the situation described above is typical for carrier route presorted flats bundles that are entered on 3-digit pallets. If you cannot confirm, please explain.
- b. Please confirm that in your flats mail flow model, presented in R2001-1, it is assumed that: (1) ten percent of the bundles will break in the process of being distributed to carriers; and (2) the pieces that were in those bundles are put through an incoming secondary sorting operation before they go to the carriers. If this is not the assumption that is reflected in your flats mail flow model, please explain fully what the assumption is.
- c. Please explain whether you believe today that the model assumption described in part b above is consistent with and justified by:
 - (1) the way things are normally done in postal facilities;
 - (2) the bundle breakage data described in LR-I-88 and LR-I-297; and
 - (3) the answers provided by USPS witness Kingsley to interrogatory AOL-TW/USPS-T-39-14 in Docket No. R2001-1 (Tr. 2179-80).
- d. Are you familiar with the bundle breakage assumptions in LR-I-332 that correspond to the situation described above? If yes, please state what percent of the bundles described would be assumed broken and how many pieces should be presumed to have to go back to an incoming secondary sort, according to that model.

RESPONSE:

- a. Confirmed.
- b. The bundle breakage assumptions I used in Docket No. R2001-1 can be found at USPS-T-24, page 8 at 14-26. The operation through which carrier route pieces from broken bundles were processed was dependent on the container presort level. In the event that the carrier route cost model contained errors, that model would have to be

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revised by the flats cost witness prior to the next rate case. I do not recall being asked about this issue in any interrogatories or at Commission hearings during Docket No. R2001-1.

c. Given the limited information that is available concerning bundle breakage, I believe the assumptions are consistent. This question assumes that bundles "survive the initial sort," which is not always consistent with what happens in the field.

d. The bundle breakage assumptions used in Docket No. R2000-1, USPS LR-I-332, are described on page 3 of that document as follows:

These bundle downflows are adjusted for bundle breakage, as reported by the MTAC Package Integrity Workgroup (see Docket No. R2000-1, LR-I-297). The downflows are also adjusted to reflect the understanding that 50 percent of all bundles that get an incoming primary sort at the ADC will get an incoming secondary sort at the ADC instead of at the SCF.

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TW et al./USPS-RT1-8 On page 11, lines 4-8, you state:

“Furthermore, bundle rates could result in mailers preparing larger and heavier bundles. In some cases, this could negatively impact operations. Larger bundles would tend to have more pieces than smaller bundles. When larger bundles break such that the integrity of the bundle is lost, more mail would be processed in piece distribution operations, even though that mail should have bypassed those operations.”

- a. Please confirm that in the absence of per-bundle rates, as in the current rate structure, mailers tend to prepare many small bundles in order to maximize their presort discounts, causing the Postal Service to have to sort and eventually “prep” more bundles than it would have to if per-bundle costs were reflected in the rates. If you cannot confirm, please explain.
- b. Please describe fully all current postal regulations that limit the size of flats bundles, both in general and in special cases such as bundles being carried in sacks. Please provide all appropriate references.
- c. Please confirm that the Postal Service, if it so wished, could impose regulations with even stricter limitations on bundle size.
- d. If the Postal Service is as concerned about large bundles as your testimony appears to suggest, why are postal officials talking about raising bundle minimums for both Periodicals and Standard flats?

RESPONSE:

- a. Not confirmed. This issue would be better directed to industry representatives.
- b. Package, or bundle, preparation rules can be found in DMM Sections M020.1.8 and M210.2.0.
- c. Confirmed.
- d. A per-bundle rate would serve as an incentive for mailers to maximize the size of their bundles. I do not view an incentive to maximize bundle size as being identical to a possible mail preparation change that could increase minimum bundle sizes.

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TW et al./USPS-RT1-9 It has been rumored that the Postal Service soon will deploy the "Automated Package Processing System (APPS)" and that some of the sorting of Periodicals and Standard flats bundles that currently is performed on SPBS machines will be shifted to APPS machines. A Postal Service interrogatory to Stralberg in this docket asked if he had analyzed the impact of the APPS deployment, which of course would have been impossible given that little information has been made available on what the Postal Service's plans with APPS are, and on what the precise capabilities of the machines are.

- a. Is the APPS deployment one thing you had in mind when you claimed that "cost reduction efforts are underway" on page 2 of your testimony? If not, please explain why not.
- b. Please describe the Postal Service's current plans, to the extent they have been formulated, regarding APPS deployment. Include estimates of what portion of the current SPBS bundle sorting is projected to switch to the APPS, and when. Please also explain how use of the APPS system will be shared between parcel and bundle sorting.
- c. Please provide as complete a description as possible of the capabilities of the APPS system. Please include estimated productivity rates and a comparison with the capabilities of the various configurations of SPBS machines.
- d. Has any testing been done to determine how a switch of bundle sorting to the APPS system might affect the probabilities of bundle breakage? If yes, please describe the results of those tests. If no, please explain why not.

RESPONSE:

a. "Cost containment" would have been a better term to use. The deployment of the Automated Package Processing System (APPS) is one example of the efforts the Postal Service has undertaken to improve flats processing and contain costs. Furthermore, Postal Service equipment deployments, such as the deployment of the AFSM100, do not signify the "end" of the automation process, but, rather, represent the beginning.

For example, the AFSM100 was initially deployed with in-plant keying stations. Over time, it became apparent that it would be more efficient to have Remote Encoding

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Center (REC) employees key flat-shaped mail. The in-plant keying operations were removed and the images were ultimately routed to the REC.

In order to minimize the images that were routed to the REC, the Postal Service also incorporated the Secondary Address Reader (SAR) into AFSM100 operations. The SAR is somewhat similar to the Remote Computer Read (RCR) system used for cards and letters, with the exception that Optical Character Reader (OCR) technology is used, rather than image recognition technology. In essence, the SAR provides a second opportunity to resolve images before they are sent to the REC for keying.

Today, the Postal Service continues to look for ways to improve flats processing and enhance AFSM100 operations. For example, the Board of Governors recently approved funding for both the Automated Tray Handling System (ATHS) and the Automatic Induction System, both of which will complement the AFSM100.

- b.** It is my understanding that the utilization of the APPS machines is currently being evaluated and refined.
- c.** Please see the attached three-page description of the APPS. Productivities are expected to fall within the 369 pieces per work hour to 550 pieces per work hour range.
- d.** I am aware of no such tests. It is my understanding that the APPS machine has been designed to be more "bundle friendly." Mechanisms have been included in the APPS design which will absorb impacts. These features are expected to result in less damage and less bundle breakage.

1.0 INTRODUCTION

The purpose of this Decision Analysis Report (DAR) is to request approval of a [REDACTED] capital investment and an expense investment of [REDACTED] for the purchase and installation of 76 Automated Package Processing Systems (APPS). The APPS will be the Postal Service's next generation sorting machine for parcels and bundles of mail. By having optical character reading (OCR) and other advanced technologies, the APPS will reduce the labor necessary to efficiently process these mail types. A Return on Investment (ROI) of [REDACTED] percent is expected for this project.

2.0 BACKGROUND

In December 1986, the Postal Service signed a contract for its first deployment (102 units) of Small Parcel and Bundle Sorters (SPBS). These machines were designed to process mail products of medium weight and with small to medium dimensions. The Postal Service uses its SPBSs to process bundles of flats or letters, parcel-sized Priority Mail, and Parcel Post.

The Postal Service gives rate incentives to mailers to presort their mail. This mailer presorting results in bundles of flats, small parcels, and letters entering the mailstream via pallets, trays, tubs, and sacks. The receiving postal facility must then process the presorted mail to smaller facilities or to individual letter carriers within the facility's service area. Today, this work is done on an SPBS if available, or manually.

The other major workload on the SPBS is non-presorted parcels. The Postal Service delivers more than 1.6 billion parcel-shaped mailpieces per year. Despite reduced mail volume for 2001 as the nation's economic recovery continues, mail order catalogs along with e-Commerce are expected to create a growing market for parcel delivery. The Postal Service is committed to obtaining a substantial share of this business.

The volume of mail needing SPBS processing has grown steadily during the 1990s. Management has had to return to the Board of Governors repeatedly for authorization to purchase additional machines. At present, 346 of these machines are deployed nationwide. The SPBS has become a major workhorse, being used to sort over 3.7 billion small parcels and bundles per year.

Since items going onto an SPBS tend to be non-standard in shape and can be bulky or heavy, a team of employees is needed to get mail on and off the machine. Furthermore, employees have to manually align each item and key a code from the face of the mailpiece. The total crew for an SPBS, as originally deployed, was between 12 to 18 workers, depending upon the number of keying stations. Four-, five- and six-keying station SPBSs have been deployed.

In an effort to improve the staffing, productivity and achieved throughput of the SPBS, a front-end feed system was developed. The first component of the SPBS Feed System is mail container unloading equipment, which dumps mail out of the Postal Service's heaviest mail containers. The Feed System then transports the mail on mechanized conveyors to all of the keying consoles of the SPBS. These conveyors are lengthy, and provide staging space for a working inventory of mail. Deployment of 277 of these supplemental systems was completed November 2000.

In February 2002, both the hardware and software to upgrade the control systems of 192 SPBSs were deployed. This upgrade allowed for an easy addition of reading devices, such as a Barcode Readers (BCRs) and, when available, Optical Character Readers (OCRs) to SPBSs. Additionally, the modification redesigns the sortation software, expands the machine's management information platform (i.e., network download of sort plans and upload of end of run reports), increases computer processing power, replaces the supervisor's work station, and adds dispatch bin displays along with label printers.

Despite these improvements, today's SPBS is a machine with several inherent limitations.

- a. It is a labor-intensive machine that, depending upon the configuration in use and the type of mail being processed, can provide a productivity range of only 280 to 350 pieces/person/workhour.
- b. Each piece of mail that passes through the SPBS is dependent upon a keyer to accurately read and enter a code. Experience has shown that, whenever the Postal Service uses a method that is reliant upon keyers, a small portion of the mail is incorrectly sorted.
- c. The SPBS is unable to retain mail that is awaiting the resolution of an address recognition problem. Once a mailpiece is inducted onto an SPBS, it must immediately go into either a planned mail sort bin or the reject bin.

3.0 SYSTEM DESCRIPTION

The APPS is the next generation SPBS. It has been developed to improve the efficiency of bundle and parcel sorting. The APPS will be a large machine with a large processing capacity. All APPS sites have certified sufficient space to accommodate installation. The Postal Service's general plan is to replace one or two SPBSs with one APPS, in larger offices. Significant numbers of SPBSs will remain in service. In many cases, SPBSs that are exceeded by APPSs will be re-deployed to smaller offices that currently have no machines for sorting parcels and bundles.

The APPS will automate the sortation of small parcels and bundles. The first component of the APPS will be container unloading modules, on one or more sides of the machine, to support the high throughput objective. The stream of mailpieces then will pass through singulation and address reading subsystems.

Address reading will begin in a camera tunnel, consisting of an array of cameras positioned at different angles to capture multiple images of each mail piece (up to six sides of a package). As the mail moves by the cameras, the cameras will record the images of the different surfaces on the package. The recorded images then will be sent to an Optical Character Reader / Barcode Reader (OCR/BCR) processor, which will attempt to identify the destination ZIP Code and the type of package being processed (bundled mail or parcel). In the event of an address recognition problem, the images of the mail piece will be transmitted to one of twenty Remote Encoding Centers (RECs) across the country, where employees will key extracts from the images to resolve the problem.

All mailpieces will be inducted onto the APPS' circular sortation loop. Most induction will be done automatically, in an unattended mode. Transactions that the APPS recognizes as more than one piece of mail (i.e., unsuccessful singulation) will be sent to a semi-automatic induction line, where an employee will manually face and scan each mailpiece.

When the address of a mailpiece on the APPS' circular sortation loop has been properly recognized and the mailpiece reaches the correct discharge point, it will be ejected onto a slide or into a sack or container, as appropriate. If a mail piece is unreadable by the OCR and the image must be transmitted to a REC site, the circular design allows the mail piece to re-circulate until the address is resolved or until a site-adjustable number of passes around the sorter has been made.

4.0 SYSTEM BENEFITS

The advantages of the APPS over today's SPBS are:

- a. It is a less labor-intensive machine that has a live mail tested productivity, depending on the mail type and machine configuration, between 369 to 550 pieces/worker/hour. (Field workhour savings are based on [REDACTED] of the tested productivity.)
- b. Each mail piece that enters an APPS will be scanned by a camera and processed by an OCR/BCR. If the mail piece address cannot be automatically resolved the image will be

transmitted to one of twenty REC sites or keyed locally via a Video Coding System (VCS) subsystem. With this technology, a potential exists to reduce sortation errors, especially if a high percentage of barcoded mail is present.

- c. The induction subsystem of an APPS will be almost 100% automated. Like the SPBS's Feed System, the first components of an APPS will be container dumpers. But mail on an APPS then will pass through a new subsystem – a singulator, that unstacks mailpieces, spreads out adjacent mailpieces, and produces a stream of separated, single mailpieces. The singulated mail then will pass through an OCR/BCR. If the OCR/BCR notes more than one mailpiece in a transaction, such mail will be sent to the sole remaining manual induction station within an APPS induction subsystem. All other mail, which will be properly singulated, will be automatically inducted onto the transport.
- d. The APPS will be deployed with one or two feed systems. An APPS with two feed systems is expected to be able to achieve a throughput of over 9,000 pieces/wallclock hour – about twice what is being achieved with an SPBS.
- e. The APPS will be able to retain mail that is awaiting the resolution of an OCR/BCR read problem. The APPS transport will be a loop, so such mailpieces will be able to re-circulate until address problems are resolved. Unlike the SPBS, the APPS will have an encoding subsystem, like that on the Automated Flat Sorting Machine (AFSM) 100, so all address problems will be resolved before a mailpiece is sorted into a discharge unit.
- f. The APPS will have the flexibility to be deployed with 100-200 sortation bins. All SPBSs were deployed with 100 sortation bins only¹. The APPS with greater sort capacity can be used to provide greater depth of sort, to have multiple runouts for high-volume destinations, to have the ability to run two sort plans on one machine, or to segregate mixed mail by mail type at the conclusion of a sort.
- g. The mail will be treated more gently on the APPS than on the SPBS. Mechanisms will be included to absorb impacts. The superior mail handling features of this next generation machine will result in less mail damage and less bundle breakage.
- h. An APPS configuration with two induction subsystems and 100 sort bins will have a smaller working footprint than a pair of today's SPBSs with Feeders.
- i. The OCR(s) of the APPS will be able to identify and read the optional endorsement line (OEL) used to sort bundled flats or letters. The OEL is applied by mailers to identify the presort level of mail bundles.
- j. The APPS will recognize and capture Delivery Confirmation Codes, thereby serving as one component of a status reporting system for customers.
- k. The APPS will be able to sort mail with greater extremes in dimensions and weight versus what can be processed on an SPBS.
- l. The APPS will be able to sort into the same containers as the SPBS (including sacks, parcel tubs, and hampers).

¹The SPBS can be expanded to up to 132 sort locations, and some sites have upgraded their machine(s) to this maximum.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF TIME WARNER INC. ET AL.**

TW et al./USPS-RT1-10 Please describe and provide the information currently known to the Postal Service regarding productivity at the bundle prep operation that normally has MODS number 035. In particular, please answer the following.

- a. Please confirm that in today's environment most flats bundles, with the exception of carrier route bundles, are taken to the 035 mail prep operation where the bundles are broken and the pieces inside the bundles are placed on "ergo carts," which are then taken, in most cases, to an AFSM-100 machine. Please explain if not confirmed.
- b. Please confirm that in today's environment even bundled pieces that eventually will be sorted on FSM-1000 machines or manually tend to be given the 035 mail prep treatment.
- c. How is volume at the 035 operation measured in the MODS system? Is it measured in pieces prepped, in bundles opened, or something else? Please explain.
- d. What is believed to be the dominant factor or factors affecting 035 costs? Is it the number of bundles, the number of pieces prepped, the weight of those pieces? Please describe what is known about the cost structure of this operation.
- e. What are the typical productivity targets transmitted to 035 employees by their supervisors?
- f. Is the 035 operation typically staffed with clerks or mailhandlers?
- g. What special studies, if any, have been performed to analyze 035 productivity, and what are the results of such studies?

RESPONSE:

- a. Confirmed for Periodicals and Standard Mail bundles.
- b. Confirmed for mail pieces that are to be processed using the Automated Flats Feeders (AFF) on the Upgraded Flat Sorting Machine model 1000 (UFSM1000). Not confirmed for mail pieces that are to be keyed on the UFSM1000.
- c. It is my understanding that bundled flat mail is weighed into the 035 operation and converted to pieces using conversion factors.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF TIME WARNER INC. ET AL.**

RESPONSE TO TW ET AL.-RT1-10 (CONTINUED)

d. I am not aware of any field studies that have been conducted to evaluate the 035 operation. However, it is my understanding that Postal Service operations personnel consider the number of bundles to be a primary cost driver.

e. The operations target for loading a Flat Mail Cart (FMC) is 40 minutes.

f. The 035 operation is staffed by mailhandlers.

g. Please see my response to TW et al./USPS-RT1-10(d).

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USPS-RT-1

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001**

**COMPLAINT OF TIME WARNER, INC.
ET AL. CONCERNING PERIODICALS
RATES**

Docket No. C2004-1

**REBUTTAL TESTIMONY
OF
MICHAEL W. MILLER
ON BEHALF OF
UNITED STATES POSTAL SERVICE**

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1
2 **REBUTTAL TESTIMONY**
3 **OF**
4 **MICHAEL W. MILLER**

5 **AUTOBIOGRAPHICAL SKETCH**

6 My name is Michael W. Miller. I am an Economist in Special Studies at the
7 United States Postal Service. Special Studies is a unit of Corporate Financial Planning
8 in Finance at Headquarters. I have testified before the Postal Rate Commission on six
9 separate occasions.

10 In Docket No. R2001-1, I sponsored two separate testimonies as a direct witness
11 on behalf of the Postal Service. The first testimony presented First-Class Mail
12 letters/cards and Standard Mail letters mail processing unit cost estimates and
13 worksharing related savings estimates, the Qualified Business Reply Mail (QBRM)
14 worksharing related savings estimate, the nonstandard surcharge/nonmachinable
15 surcharge cost studies, and the Business Reply Mail (BRM) fee cost studies. The
16 second testimony presented First-Class Mail, Periodicals, and Standard Mail flats mail
17 processing unit cost estimates.

18 In Docket No. R2000-1, I testified as the direct witness presenting First-Class
19 Mail letters/cards and Standard Mail letters mail processing unit cost estimates and
20 worksharing related savings estimates. My testimony also included the cost study
21 supporting the nonstandard surcharge. In that same docket, I also testified as a
22 rebuttal witness. My testimony contested key elements of the worksharing discount
23 proposals presented by several First-Class Mail intervenors, as well as the Office of the
24 Consumer Advocate (OCA).

25 In Docket No. R97-1, I testified as a direct witness concerning Prepaid Reply
26 Mail (PRM) and QBRM mail processing cost avoidance estimates. In that same docket,
27 I also testified as a rebuttal witness concerning the Courtesy Envelope Mail (CEM)
28 proposal presented by the OCA.

1 Prior to joining the Special Studies unit in January 1997, I served as an Industrial
2 Engineer at the Margaret L. Sellers Processing and Distribution Center in San Diego,
3 California. In that capacity, I worked on field implementation projects. For example, I
4 was the local coordinator for automation programs in San Diego such as the Remote
5 Bar Coding System (RBCS) and the Delivery Bar Code Sorter (DBCS). I was also
6 responsible for planning the operations for a new Processing and Distribution Center
7 (P&DC) that was activated in 1993. In addition to field work, I have completed detail
8 assignments within the Systems/Process Integration group in Engineering. My primary
9 responsibility during those assignments was the development of Operating System
10 Layouts (OSL) for new facilities.

11 Prior to joining the Postal Service, I worked as an Industrial Engineer at General
12 Dynamics Space Systems Division, where I developed labor and material cost
13 estimates for new business proposals. These estimates were submitted as part of the
14 formal bidding process used to solicit government contracts.

15 I was awarded a Bachelor of Science degree in Industrial Engineering from Iowa
16 State University in 1984 and a Master of Business Administration from San Diego State
17 University in 1990. I also earned a Professional Engineer registration in the State of
18 California in 1990.

1 **I. PURPOSE AND SCOPE OF TESTIMONY**

2 The purpose of my testimony is to enhance the Docket No. C2004-1 record, as it
3 pertains to costs, in response to the testimony of Time Warner et al. witness Stralberg.
4

5 **II. INTRODUCTION**

6 In his testimony, witness Stralberg stated his view that the Outside County
7 Periodicals rate structure proposed by witness Mitchell¹ is sound because it recognizes
8 "the characteristics of sacks, pallets, and bundles that affect postal costs, as well as the
9 characteristics of individual pieces that affect costs..."² In reality, additional cost drivers
10 affect Outside County Periodicals costs beyond those addressed in this case. These
11 additional cost drivers, however, are not specifically recognized in the proposed rates.
12 Given the large number of cost drivers that affect Outside County Periodicals costs, or
13 the costs for any postal product, it will not always be feasible to incorporate all cost
14 drivers into the rate schedule.

15 Despite this fact, Periodicals costs do appear to be the primary issue in this
16 case. In his testimony, witness Mitchell expressed the view that Periodicals rates are
17 increasing too rapidly.³ While Periodicals cost trends may have served as an incentive
18 to file this case, they should not be the only consideration. Consideration must also be
19 given to the data that support the analysis and the context in which those data have
20 been used.

21
22 **III. PERIODICALS COSTS ARE INFLUENCED BY NUMEROUS COST DRIVERS**
23

24 *Particularly since the late 1980s, there has been concern that, due to*
25 *rising costs, the rates for Periodicals have been rising inordinately*
26 *rapidly. Docket No. C2004-1, Tr.3/806 at 7-8.*
27

28 The Periodicals cost coverage figures, as presented in Cost and Revenue
29 Analysis (CRA) reports, have recently hovered around the 100-percent mark.
30 Consequently, any discussion of Periodicals inevitably leads to a discussion of costs,

¹ Docket No. C2004-1, Tr. 3/840.

² Docket No. C2004-1, Tr. 1/23 at 16 to 18.

³ Docket No. C2004-1, Tr. 3/805-822.

1 and whether those costs are reasonable. In recent years, the Postal Service and the
2 mailing community have expended a great deal of effort trying to contain these costs.

3 **A COST REDUCTION EFFORTS ARE UNDERWAY**

5 In Docket No. R2000-1, the Postal Service presented cost reduction programs
6 that were based on the savings associated with the combination of barcoded and non-
7 barcoded bundles in sacks, a reduction in the number of "skin" sacks, the
8 implementation of Line-Of-Travel (LOT) sequencing, and the institution of the newly
9 created L001 label list.⁴ Shortly after that docket, the Postal Service deployed the
10 Automated Flats Sorting Machine model 100 (AFSM100), which processed flat-sized
11 mail at improved productivity levels and provided an increased sorting capacity⁵ when
12 compared to its predecessor, the Flats Sorting Machine model 881 (FSM881).

13 During the past several years, Mailers' Technical Advisory Committee (MTAC)
14 and Postal Service work groups have also attempted to address issues pertaining to
15 Periodicals costs. These work groups have evaluated issues relating to bundle
16 breakage, alternative flats preparation methods, and a new flats container.

17 Furthermore, the Postal Service has attempted to control costs by proposing
moderate revisions to its rate structure. In Docket No. R2001-1, a pallet discount was
19 first proposed and implemented for Periodicals. Recently, the Postal Service has filed
20 two experimental co-palletization dropship discount mail classification cases, Docket
21 Nos. MC2002-3 and MC2004-1.

23 **B. EQUIPMENT DEPLOYMENTS AND COST REDUCTION PROGRAMS** 24 **MAY HAVE CONTRIBUTED TO IMPROVING THE SITUATION AS THE** 25 **PERIODICALS COST TREND APPEARS TO BE LEVELING OFF**

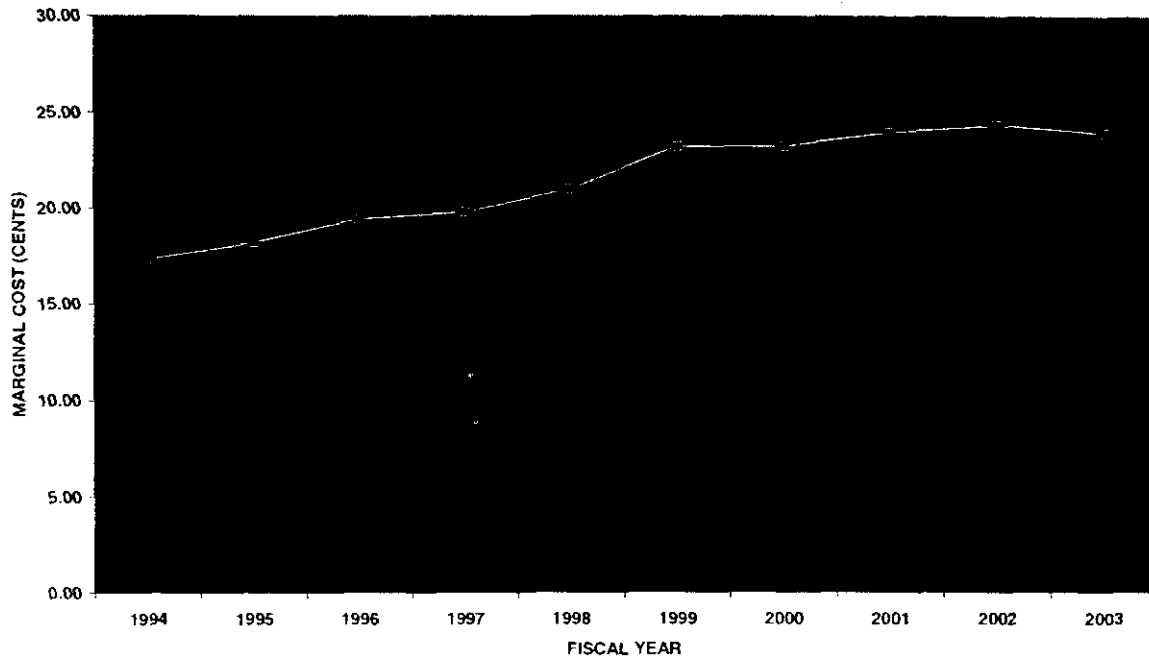
26 The Outside County Periodicals cost trend⁶ over the past ten Fiscal Years (FY)
27 appears to have leveled off to some extent, as shown in Figure 1 below. Between FY
28 1994 and FY 1999, the marginal cost increased nearly six cents. From FY 1999 to FY
29 2003, however, the marginal cost figures have remained relatively flat.

⁴ See the responses to Docket No. R2000-1, MPA/USPS-ST42-4 and MPA/USPS-ST42-5.

⁵ The AFSM100 productivity is, in general, over twice that of the FSM881, depending on the operation. The AFSM100 contains 120 bins, while the FSM881 contains 100 bins.

⁶ These figures were calculated using the Postal Service versions of the CRA and Cost Segments/Components reports.

FIGURE 1: OUTSIDE COUNTY PERIODICALS
CRA MARGINAL COST (CENTS)
FY 1994-2003



In general, it is not surprising that Outside County Periodicals marginal costs would increase over time, as wage rates and other costs increase over time, in the absence of any significant offsetting cost reductions. The expectation that any flats costs would necessarily decline might not be realistic.⁷ While the costs for some letter-shaped CRA line items may have, on occasion, decreased from one year to the next, the assumption that the same phenomenon would occur for Periodicals may not be valid. The letters automation program has been a cornerstone of the Corporate Automation Plan (CAP) since the late 1980s. The flats automation program, on the other hand, is relatively new. Nevertheless, the Postal Service continues to investigate ways to contain flats costs.

⁷ Docket No. C2004-1, Tr. 3/808 at 1-6.

**C. FLATS MAIL CHARACTERISTICS ARE DIVERSE AND CONSIST OF AN
EXTENSIVE NUMBER OF COST DRIVERS, NOT ALL OF WHICH CAN BE
REFLECTED IN THE RATES**

The cost drivers for any mail piece shape, including flats, are numerous. Some cost drivers are reflected in rates, while other cost drivers are not. The following factors can all influence Periodicals flats costs: the network configuration through which the mail is processed (i.e., centralized operations versus decentralized operations, such as annexes and processing "hubs"), the building configurations through which the mail is processed, the dock configurations through which the mail is processed, the equipment available at the facilities through which the mail is processed, the methods used at the facilities through which the mail is processed, the transportation used to ship mail between postal facilities, destination entry, mail piece dimensions (length, height, and thickness), mail piece weight, mail piece volume or "cube," container type (sack or pallet), container size, container weight, bundling materials and the associated breakage rates, bundle size, bundle weight, mail piece machinability (i.e., AFSM100 compatibility), the presence of a barcode on the mail piece, mail piece address location, mail piece return address location, mail piece "noise," the use of polywrap, and the frequency of distribution (if, for example, "Hot 2C lists" are used to manage separate Periodicals mail streams).

It may not be realistic to expect that all the cost drivers listed above could be incorporated into the rate schedule, even though the individual elements all affect costs.

IV. THE CONTEXT IN WHICH A COST MODEL IS BEING USED IS IMPORTANT

Improvement in our understanding of costs in recent years has brought the existing deficiencies into clearer focus and has suggested new paths that cost recognition should follow. Tr. 3/800 at 16-18.

However, in order to be consistent with the Postal Service's mail flow and cost assumptions in R2001-1, the productivity rate for manual incoming secondary should be reduced to 422. That has the effect of sharply increasing the estimated total piece sorting costs. Tr. 1/17 at 10-13.

To my knowledge, there has been no national study to determine the true productivity rate for manual flats sorting that is performed in associated offices, stations and branches. Tr. 1/17 at 20-22.

1 Despite witness's Mitchell's implication in the first citation above that our
 2 level of cost understanding would support the proposed rates, the subsequent
 3 two citations from witness Stralberg would seem to indicate otherwise. In these
 4 citations, witness Stralberg discusses an issue he discovered with only one
 5 input to the cost model, which, when changed, "sharply" increased the cost
 6 estimates. He then went on to state that he is not aware of any study that
 7 attempted to calculate the actual statistic in question.

8 This example illustrates one of the many issues a cost analyst must
 9 resolve when developing any cost model. While the cost analyst always looks
 10 for the best data available, he or she can, on occasion, come up empty handed.
 11 In these cases, special studies⁸ may be required. The back drop to this process,
 12 of course, is the context in which the cost data and cost models are being used.
 13 Furthermore, it is not enough to simply find data; the results must also be
 14 meaningful.

15
 16 **A. THE GOAL OF MOST SPECIAL COST STUDIES IS TO CALCULATE**
 17 **AVOIDED OR ADDITIONAL COSTS, NOT "BOTTOM-UP" COSTS**
FOR SPECIFIC MAIL

19 While many special cost studies may measure "total" cost estimates, such as
 20 total mail processing unit cost estimates, the goal in a rate case, at the rate category or
 21 product level, is to measure and/or evaluate the cost relationships between various
 22 products. These measurements are typically expressed in the form of avoided costs or
 23 additional costs. In most cases, especially those in which the availability of data may be
 24 somewhat limited, it is preferable and easier to rely on more narrowly defined cost
 25 studies that focus on measuring the impact of specific identified cost drivers.

26 First-Class Mail presort letters can be used as an example. For the past three
 27 rate cases, Bulk Metered Mail (BMM) letters costs have been used as the official
 28 "benchmark." Mail processing unit costs and delivery unit cost estimates have been
 29 calculated in each case for this benchmark. Mail processing and delivery unit cost
 30 estimates have also been calculated for each First-Class Mail presort letters rate

⁸ The term "special studies" as it is used here refers to studies that are conducted when a given statistic (e.g., productivity) is not readily available through established Postal Service data collection systems.

category. The difference between the total mail processing and delivery unit cost estimate for the benchmark and the total mail processing and delivery unit cost estimates for the presort letters rate categories has served as the cost basis for the current discounts. In this example, the measured cost differences, or worksharing related savings estimates, reflect the value of prebarcoding and presorting, which are specific characteristics defining the presort letters rate categories. BMM letters, on the other hand, are not required to be either presorted or prebarcoded.

The same principle holds true in cases where the Postal Service assesses surcharges or fees. Business Reply Mail (BRM) can be used as an example in this instance. The basis for the various BRM fees can be found in cost studies which measure the additional counting, rating, billing, and sampling costs incurred by each rate category. BRM is a subset of the First-Class single-piece mail stream. As such, these additional costs represent those costs not typically incurred by non-BRM single-piece mail pieces.

Once an analyst has completed a special cost study, the results are provided to a pricing witness. In addition to considering the various ratemaking criteria outlined in Title 39 of the United States Code, the pricing witness relies on the cost data to develop specific rate proposals. In cases where a worksharing related savings estimate or additional cost estimate has been calculated, the pricing witness would determine an appropriate "pass through" to achieve rate design goals. This process has generally been followed for the past several rate cases and adheres to the Commission's pricing principles.⁹

B. THE DOCKET NO. R2001-1 FLATS COST STUDIES WERE APPROPRIATE GIVEN THE CONTEXT IN WHICH THEY WERE USED

This same approach was applied to the flats cost studies, including the Periodicals cost studies, in Docket No. R2001-1. While the Periodicals subclasses have not historically had an official "benchmark," the pricing witness relied on cost estimates by rate category when developing the rate design. These estimates were used as a tool

⁹ PRC Op. MC95-1, page IV-94 to IV-138.

1 in the rate design process to ensure that the cost differences related to prebarcoding
2 and presorting were reflected in the proposed rates.

3 With the development of such estimates as the end goal, I developed a base
4 Periodicals cost model that reflected the mail processing operations through which
5 Periodicals flats were processed up to the point that they were presented to the mail
6 carrier.¹⁰ The model cost estimates were then used, in essence, to de-average the CRA
7 mail processing unit cost estimate for Outside County Periodicals.

8 While the identical base cost model was used to develop estimates for all rate
9 categories, the mail characteristics data upon which each rate category cost model was
10 based were not identical. As witness Stralberg described, the manner in which the various
11 Periodicals and Standard Mail flats rates are assessed can be somewhat confusing.¹¹
12 For all palletized flats, mail pieces are assessed the appropriate presort rate based on
13 the bundle presort level. For flats entered in sacks, the rate is based on the bundle
14 presort level only when the mail pieces are prebarcoded. For non-barcoded mail pieces
15 entered in sacks, the rate is based on the container (sack) presort level.

16 To the extent that these rate application rules may be problematic for the Postal
17 Service and/or mailers, the proposed rate structure presented in this case is not the
18 only option to rectify the situation. Witness Stralberg acknowledged that mail
19 preparation rule changes could be revised as an alternative.¹² That point aside, the rate
20 application rules had a great influence on the cost estimates at the rate category level,
21 and did not necessarily result in cost estimates which could be used to isolate the cost
22 differences related to mailer presorting and prebarcoding efforts.

23 Consequently, at the request of the pricing witness, I developed a second set of
24 estimates in which the presort levels were held constant.¹³ For Periodicals, the
25 nonautomation entry profile was used for automation models as well, in order to provide
26 a more insightful cost comparison. The end result was a cost methodology and set of
27 cost estimates that were appropriate in the context in which they were used, but may
28 not have been appropriate as bottom-up cost estimates.

¹⁰ Docket No. R2001-1, USPS LR-J-61, pages 34 to 68.

¹¹ Docket No. C2004-1, Tr. 1/27 at 28 to Tr. 1/28 at 5.

¹² Docket No. C2004-1, Tr. 1/187.

¹³ Docket No. R2001-1, USPS-T-24, Section III.C.

**C. USPS LR-I-332 WAS NOT CREATED TO SUPPORT A GRID
RATE ANALYSIS**

The analysis conducted by witness Stralberg, however, may not necessarily be appropriate in the context in which it has been used. The centerpiece of witness Stralberg's testimony is a methodology similar to that relied upon by the Postal Service to develop Docket No. R2000-1, USPS LR-I-332. Where possible, witness Stralberg incorporated updated information from the subsequent case, Docket No. R2001-1. Consequently, it is worth revisiting the origin of Docket No. R2000-1, USPS LR-I-332.

In Docket No. R2000-1, the Commission expressed its concern about rising Periodicals costs and directed the Postal Service to provide cost data and rationales for various First-Class Mail, Periodicals and Standard Mail subclasses in Presiding Officer's Information Request (POIR) No. 4. This POIR was filed on February 25, 2000. Postal Service witness Smith responded to that request on March 17, 2000. Library reference USPS LR-I-233 was filed in conjunction with that response.

On March 28, 2000, the Commission issued Order No. 1289, which directed the Postal Service to "present detailed evidence explaining the causes of the trend in costs of processing Periodicals from a witness qualified to respond to participants' questions on the topic." It was requested that the witness have high-level managerial responsibility over flats operations.

In response to Order No. 1289, the Postal Service filed two supplemental testimonies on April 17, 2000. Witness O'Tormey (USPS-ST-42) discussed the broad policy issues impacting Periodicals costs from a Headquarters management perspective. Witness Unger (USPS-ST-43) discussed Periodicals cost issues from a field management perspective.

In MPA/USPS-ST42-4, witness O'Tormey was asked to identify and quantify mail preparation changes that were being planned. In his response, witness O'Tormey stated:

The Postal Service is currently considering changes to mail preparation for Periodicals which include: (1) allowing barcoded and non-barcoded bundles in the same sack; (2) elimination of CRRT skin sacks; (3) requiring that basic rate carrier route Periodicals mail be in line-of travel (LOT) sequence; and, (4) mandatory compliance with the L001 option.

1
2 Witness O'Tormey went on to identify savings estimates of \$8 million for item (1)
3 and \$3.6 million for item (4). In the response to MPA/USPS-ST42-5, he identified a
4 savings estimate of \$1.6 million for item (2). Library reference I-332 was filed
5 simultaneously and contained the analysis supporting those estimates.

6 This library reference was used to develop broad savings estimates and was not
7 intended to measure cost differences at the rate category level. The use of this library
8 reference as a cost basis for new rate categories may therefore not be valid.

9
10 **D. THE USE OF HISTORICAL RATE CASE DATA MAY NOT BE**
11 **APPROPRIATE FOR THE PURPOSES AT HAND**

12 While the Docket No. R2001-1 cost models were appropriate given the context in
13 which they were used, the reliance on these same data inputs in a USPS LR-I-332
14 analysis may not be appropriate, given that the goal in this case is to develop separate
15 and distinct "bottom-up" piece, bundle, and container costs.

16
17 **1. PIECE DISTRIBUTION COST ESTIMATES ARE RELIABLE**
18 **IN THE CONTEXT IN WHICH THEY HAVE BEEN USED, BUT**
19 **REPRESENT FLATS AVERAGES**

20
21 Many of the flats data contained in the Docket No. R2001-1 cost models, and
22 consequently, the cost models in this case, represent average data for all flats,
23 regardless of class. For example, the productivity figures by operation represent
24 average data because the Management Operating Data System (MODS) does not rely
25 on class-specific operation numbers. The same operation numbers are used for all
26 flats. The density data and accept rate data also represent average figures for all flats,
27 regardless of class.

28 The primary goal of the flats cost models in Docket No. R2001-1 was to develop
29 mail processing unit cost estimates by rate category, which the pricing witness could
30 then use to evaluate the cost impact of mailer prebarcoding and/or presorting activities.
31 After taking these cost differences into consideration, in conjunction with the CRA or roll
32 forward cost data specific to each class or subclass, the pricing witness then developed
33 rate proposals. Consequently, the use of average data to examine these activities did

1 not pose a significant risk. In this docket, the reliance on cost models that are based on
2 average data represents a greater risk if the goal is to develop "bottom-up"
3 disaggregated piece, bundle, and container rates for Periodicals flats.

4
5 **2. THE BUNDLE STUDIES RELIED UPON BY WITNESS**
6 **STRALBERG MAY NOT SUPPORT A GRID RATE**
7 **ANALYSIS**

8 The bundle sorting cost estimates may also not be appropriate as used in this
9 docket. In Docket No. R2000-1, two bundle-related studies were conducted. The first
10 study can be found in USPS LR-I-88. Some components of this study were based on
11 qualitative surveys and did not involve quantitative measurements. While some portions
12 of the study involved sampling activities performed at 50 sites, the time period over
13 which the data were collected was the fall of 1998. As the author of the summary report
14 stated on page 2, "The target population for this study was restricted to bundle
15 handlings during the early fall. This should be kept in mind when interpreting results of
16 this survey since there may be seasonal variations in manual bundle handling
17 productivities and handlings."

18 The second study was referenced by witness Stralberg in his testimony and can
19 be found in USPS LR-I-297. This library reference contained a joint bundle breakage
20 study conducted by the Postal Service and MTAC. While the study quantitatively
21 measured bundle breakage rates, it was very limited in scope. It was conducted at six
22 facilities for a limited time period. Furthermore, the study only measured breakage rates
23 when a sack or pallet was first opened. It did not measure breakage rates in
24 downstream bundle sorting operations.

25 I do not mean to imply that the results from these studies were useless. They
26 both provided meaningful data that could be incorporated into the cost model estimates.
27 As stated above, the use of these data in the cost models did not pose a great risk
28 because the primary function of the models was to isolate the cost impact of mailer
29 presorting and prebarcoding efforts. The use of these data in the Time Warner, et al.
30 analysis, however, is problematic, given that the goal of that analysis is to isolate
31 "bottom-up" bundle sorting costs for Periodicals flats.

1 There is a great deal that is not known about bundles. For example, I am not
 2 aware of any study in which the impact of bundle weight on costs has been measured.
 3 Witness Stralberg also does not appear to be aware of any such study.¹⁴

4 Furthermore, bundle rates could result in mailers preparing larger and heavier
 5 bundles. In some cases, this could negatively impact operations. Larger bundles would
 6 tend to have more pieces than smaller bundles. When larger bundles break such that
 7 the integrity of the bundle is lost, more mail would be processed in piece distribution
 8 operations, even though that mail should have bypassed those operations.

9 In general, bundle studies are difficult to conduct because they tend to disrupt
 10 operations. Consequently, they can only be performed for limited periods of time.
 11 While it is not impossible to conduct any analysis, the feasibility of collecting and
 12 maintaining these data should be given careful consideration, given the context in which
 13 the data would be used.

14 15 **3. THE EXTENT TO WHICH CONTAINER COSTS MAY BE** 16 **WEIGHT RELATED IS UNCLEAR**

17 Finally, there are some inconsistencies as to the manner in which witness
 18 Stralberg has classified costs as being either container related or weight related. For
 19 example, he states:

20
 21 In reviewing the bundle related costs indicated by the model, I noticed that
 22 many of those costs in fact do not depend on the number of bundles but
 23 rather on the bulk of the bundles. Since bulk is more closely correlated
 24 with weight, I believe such costs are more appropriately called weight
 25 related. These 'weight related' bundle costs occur when a hamper or other
 26 USPS container, after being filled with bundles in a bundle sorting
 27 operation, is moved either to another bundle sort or to a piece sorting
 28 operation, in either the same facility or a different facility... These costs are
 29 therefore primarily determined by cube, which tends to vary in closer
 30 proportion with weight than with the number of pieces or bundles, and so
 31 it is more appropriate to classify them as pound costs. (Docket No.
 32 C2004-1, Tr. 1/26 at 14 to Tr. 1/27 at 5)
 33

34 If costs for moving bundles in postal containers are determined to be weight
 35 related, rather than bundle related as described by witness Stralberg, it is unclear why

¹⁴ Docket No. C2004-01, Tr. 1/183-186.

1 the costs for moving containers, such as pallets or sacks, in a cross-docking operation
 2 would also not be classified as weight related. The following interrogatory response
 3 would seem to imply that witness Stralberg believes that at least a portion of pallet
 4 costs are weight related.

5
 6 Q: How fast does a forklift carrying a pallet travel if unimpeded by
 7 congestion?

8
 9 A: I don't know, and I rely on no assumption regarding the maximum
 10 speed of a forklift. I would assume it depends on the weight of the pallet
 11 carried as well as the strength of the motor used by a particular forklift.
 12 (Docket No. C2004-1, Tr. 1/97)
 13

14 It is unclear why the costs for moving containers full of bundles should be
 15 considered weight related once the mail has been sorted into postal containers, but
 16 container related for pallets and sacks that have not yet been opened.

17 18 **V. SUMMARY**

19 The current Outside County Periodicals rate structure offers rate incentives for
 20 mailers that presort and/or prebarcode their mail. Mailers can both prebarcode and
 21 presort a given mailing, but they are not required to do both. While some rate
 22 categories reflect a combination of presorting and prebarcoding, the activities are not
 23 causally linked; mailer presorting and prebarcoding efforts result in separate and
 24 distinct savings to the Postal Service, even though the savings may be expressed in
 25 aggregate form during a rate case.

26 The costs for containers, bundles, and individual pieces, however, are causally
 27 linked, as confirmed by witness Stralberg.¹⁵ Consequently, the development of a rate
 28 schedule based on separate "bottom-up" container, bundle, and piece costs could be
 29 somewhat problematic. As discussed above, the application of average rate case data
 30 in this docket may not be appropriate, given that the results measured in a general rate
 31 case are used for different purposes. Furthermore, the use of the Docket No. R2000-1

¹⁵ Docket No. C2004-1, Tr. 1/188-189.

1 USPS LR-I-332 model to support the analysis in this docket also may not be
2 appropriate, given that it was used to support a broader analysis in that docket.

3 While it is not always possible to recognize all cost drivers in the rate schedule
4 for a given postal product, the Postal Service has made attempts in recent cases to
5 expand the scope of worksharing, such as the implementation of the pallet discount in
6 Docket No. R2001-1. As with other worksharing discounts, the analysis on which the
7 pallet discount was based measured cost differences between pallets and sacks, using
8 data from two testimonies in the previous rate case.¹⁶ Witness Taufique was able to
9 mitigate the risk associated with this new rate category by relying on a moderate
10 passthrough.¹⁷ Furthermore, as described by witness Tang (USPS-RT-2, Section I), the
11 impact on all mailers must also be considered before significant structural changes,
12 such as those proposed in this docket, are implemented.

¹⁶ Docket No. R2001-1, USPS LR-J-100.

¹⁷ Docket No. R2001-1, USPS-T-34, page 11 at 10.

POSTAL RATE COMMISSION
DOCKET NO. C2004-1

I, Michael W. Miller, hereby declare under penalty of perjury that:

The *Rebuttal Testimony of Michael W. Miller On Behalf Of The United States Postal Service*, denominated USPS-RT-1, was prepared by me or under my direction;

Were I to give this testimony orally before the Commission, it would be the same;

The interrogatory responses filed under my name, and designated for inclusion in the record of this docket, were prepared by me or under my direction; and

Were I to respond orally to the questions appearing in the interrogatories, my answers would be the same.


Michael W. Miller

11/2/04
Date

United States Postal Service

**Rachel Tang
(USPS-RT-2)**

MPA/USPS-RT2-1. Please refer to page 1, lines 7-8 of your testimony where you state, "The Postal Service agrees with much of the rationale provided by the complainants for this structural change." Please refer further to page 8, lines 3-5 where you state, "[t]here is no doubt that increasing efficiency is an important aspect of rate design and should be assigned considerable weight. In fact, we believe there is considerably more that can be done to advance such efficiency."

a. Please confirm that the Postal Service supports encouraging Periodicals mailers through rate incentives to reduce the number of sacks they use (e.g., by increasing sack minimums, comailing, co-palletization). If not confirmed, please explain your response fully.

b. Please confirm that the Postal Service supports encouraging Periodicals mailers through rate incentives to increase the amount of mail that they enter at destination facilities. If not confirmed, please explain your response fully.

c. Please confirm that the Postal Service supports the concepts specified in subparts (a) and (b) because the Postal Service believes that these changes in mailer behavior will reduce Postal Service costs for handling periodicals. If not confirmed, please explain your response fully.

RESPONSE:

a-b. Confirmed. The proposed rates for Periodicals in Docket No. R2001-1 included dropship incentives for editorial matter and a per-piece discount for palletized pieces. In Docket No. MC2002-3, experimental discounts were offered for co-palletization and dropshipment. In Docket No. MC2004-1, this pot was further sweetened for publications with high editorial content and heavier pieces based on the shifting of editorial pounds from various zones to either destination ADC or SCF. The Postal Service is committed to reducing the number of sacks in the Periodicals mail stream and encouraging Periodicals to be entered closer to their destinations.

c. Confirmed. The Postal Service believes that the effect of these changes would allow the Postal Service to process Periodicals mail more efficiently.

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MPA/USPS-RT2-2. Please refer to page 2, lines 11-13 where you state, "The Postal Service believes the benefits of substantive structural changes must be evaluated in the context of other factors such as ease of implementation for all customers and post offices, both large and small." Given that advertising pound rates are already zoned, wouldn't you expect that mail preparation software and business mail entry systems could be modified fairly easily to accommodate zoned editorial pound rates or other weight-related rate elements that vary by zone? If not, please explain fully.

RESPONSE:

Providing dropship incentives for editorial content in some form is entirely possible in the current documentation preparation and acceptance environment. For a discussion of the Postal Service's proposals on this subject, please see my response to MPA/USPS-RT2-1 (a)-(b).

MPA/USPS-RT2-3. Please refer to page 8, line 17 through page 9, line 1.

- a. How many pieces have qualified for either of the Docket No. MC2002- 3 experimental co-palletization discounts since they were introduced in October 2003?
- b. How many sacks were eliminated by co-palletizing the pieces specified in subpart (a)?

RESPONSE:

a. According to the Periodicals co-palletization data reports we have received from the participants, nearly 73 million pieces have been moved out of sacks and onto pallets from the introduction of the Docket No. MC2002-3 experimental co-palletization discounts in October 2003 until the end of September 2004. Among these pieces, nearly 68 million pieces were dropshipped.

It is my understanding that more pieces have qualified for and/or have claimed the co-palletization discounts than the above numbers, obtained from the data reports, suggest. Some mailers co-palletize or co-mail on a sporadic basis and have never submitted any data report. Some mailers have been co-palletizing or co-mailing but have not officially become participants in this co-palletization experiment.

b. According to the Periodicals co-palletization data reports, about 1.7 million sacks were eliminated by co-palletizing the aforementioned 73 million pieces, from the introduction of the co-palletization discounts in October 2003 until the end of September 2004. By the same token, this number is also likely to be understated to some extent.

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MPA/USPS-RT2-4. Please confirm that the pieces specified in your response to MPA/USPS-RT2-3(a) represent the Postal Service's best estimate of the number of Periodicals Outside-County flats that have migrated from sacks to pallets through co-mailing or co-palletization as a result of the co-palletization experiment. If not confirmed, please provide the Postal Service's best estimate of the number of pieces that have migrated from sacks to pallets.

RESPONSE:

Confirmed. My response to MPA/USPS-RT2-3(a) represents the Postal Service's best available and most current information collected from the co-palletization experiment participants.

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MPA/USPS-RT2-5. Please refer to page 8, line 17 through page 9, line 1. Please provide the total number of Periodicals Outside-County flats that did not qualify for any pallet or co-pallet discount as a result of the co-palletization experiment and confirm that these pieces represent the Postal Service's best estimate of the number of Periodicals Outside-County flats that are currently entered in sacks. If not confirmed, please provide the Postal Service's best estimate of the number of Periodicals Outside-County flats that have been entered in sacks since the beginning of the co-palletization experiment.

RESPONSE:

As I mentioned in my response to MPA/USPS-RT2-3 (a), the co-palletization data reports capture only those who qualify for the discounts, participate in the experiment, claim the discounts, and submit the reports. The co-palletization reports do not ask for information regarding the total number of Periodicals Outside-County flats that did not qualify for any pallet or co-pallet discount. Since the only other way to determine the sacked volume would be to subtract the palletized volume from the total volume, and palletized volume is not known, the Postal Service is not able to provide an estimate of the number of Periodicals Outside-County flats that have been entered in sacks since the beginning of the co-palletization experiment.

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MPA/USPS-RT2-6. Based upon your responses to MPA/USPS-RT2-3-5, please estimate the proportion of Periodicals Outside-County pieces that have migrated from sacks to pallets through comailing and co-palletization since the beginning of the co-palletization experiment. Please also estimate the proportion of sacked Periodicals Outside-County flats that have migrated to pallets through comailing and co-palletization as a result of the co-palletization experiment.

RESPONSE:

I am not able to provide either estimate. Please see my response to MPA/USPS-RT2-5.

MPA/USPS-RT2-7. Please refer to page 8, line 15 through page 9, line 1 where you state, "[t]he Postal Service has been striving to improve efficiency and contain cost increases for Periodicals. And we appreciate the efforts of Time Warner et al. to work with us in past and ongoing efforts. Periodicals rate design has helped with these goals by sending consistent and positive signals to the Periodicals community -- introduction of various worksharing discounts, e.g., dropship discounts and pallet discounts, and the recent co-palletization experiments (Docket Nos. MC2002-3 and MC2004-1)."

a. Would you agree that, in most instances, despite the "introduction of various worksharing discounts", the difference in Postal Service costs between Periodicals entered in sacks and those entered on pallets is substantially more than the difference in postage paid for Periodicals entered on sacks and those entered on pallets? If not, please explain fully.

b. Would you agree that, in most instances, despite the "introduction of various worksharing discounts", the difference in Postal Service costs between Periodicals entered at origin facilities and those entered at destination facilities is substantially more than the difference in postage paid for Periodicals entered at origin facilities and those entered at destination facilities? If not, please explain fully.

c. Do you believe that the recent introduction of pallet and co-pallet discounts has increased the proportion of Periodicals mail volume that is co-palletized and dropshipped? Please explain your response fully.

d. Do you believe that the recent introduction of pallet and co-pallet discounts has made co-palletization and dropshipping services more widely available than they were previously? Please explain your response fully.

e. Would you agree that, despite the introduction of pallet and co-pallet discounts, the current Periodicals rate design is not likely to provide enough incentive to encourage Periodicals mailers to switch the majority of sacked Periodicals Outside-County flats to pallets? Please explain your response fully.

f. Would you agree that, despite the introduction of pallet and co-pallet discounts, the current Periodicals rate design provides essentially no incentive to increase the size of sacks used by mailers? Please explain your response fully.

g. Holding all else equal, do you believe that increasing the rate differential between sacks and pallets would encourage the Periodicals industry to increase the proportion of mail that is co-palletized, comailed, and dropshipped? Please explain your response fully.

h. Holding all else equal, do you believe that increasing the rate differential between origin-entered and destination-entered Periodicals would encourage the Periodicals mailing industry to increase the proportion of mail that is co-palletized, comailed, and dropshipped? Please explain your response fully.

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i. Holding all else equal, do you believe that increasing the rate differential between Periodicals entered in small sacks and those entered in large sacks would encourage the Periodicals industry to increase the average size of sacks that it uses? Please explain your response fully.

RESPONSE:

a. Yes. Postal ratemaking necessitates some degree of averaging. However, in the spirit of fairness and equity, we have worked with various groups of mailers to recognize efficient preparation without causing major hardships on those who could not participate. Be it worksharing incentives for barcoding, containerization, or dropshipment, the Postal Service's goal has been to be mindful of the impact on non-participants while providing reasonable incentives that would encourage change in mailer behavior when possible. With that in mind, the Postal Service would like to do more to encourage dropshipping as our proposals in recent rates and classification filings attest.

b. Please see my response to subpart (a) above.

c. Yes. As shown in my response to MPA/USPS-RT2-3, a significant portion of Periodicals volume is co-palletized and dropshipped as a result of these recently introduced discounts.

d. Yes. Attachments to McGraw Hill witness Schaefer's testimony (MH-T-1) provide a few announcements of these types of services that have recently been made available to publishers and printers.

e. I do not know. The Postal Service believes that the efforts over the past several cases have been successful in encouraging the Periodicals customers to utilize effective worksharing more. At the same time, much more can be done.

f. Yes. When rates from Docket No. R2000-1 were implemented, the carrier route sack minimums were increased from 6 to 24 pieces, but there were no rate incentives associated with that change. 65 Fed.Reg. 46361 (July 28, 2000). While there might be some efficiencies to be gained by encouraging larger sacks, any such goal would need to be examined in view of the complexity added to the schedule by offering rate differences for large and small sacks, the impact on customers who use small sacks, any other efficiency issues, and the degree to which the Postal Service wants to encourage the use of any sacks, even large ones. We would also want to see if there are other ways to address the issue of the costs of handling smaller sacks. With all of that in mind, it is difficult to answer unequivocally that the form of rate structure suggested in the question would represent movement in the appropriate direction.

g-i. Yes to all three propositions, but holding all else equal (the *ceteris paribus* assumption) is difficult in the world of rate design. The challenge is in providing incentives to encourage behavioral change while keeping the impact on non-participants manageable.

TW et al./USPS-RT2-1. On page 4, line 1, of your testimony, you indicate that some of the publications in your sample "are mailed mostly in skin sacks".

- a. Please define the term "skin sack" as used here and elsewhere in your testimony.
- b. Please explain whether you agree that the Postal Service's cost of handling skin sacks (not including transportation, bundle handlings, piece handlings, and carrier costs) is in many cases higher than the total postage for pieces contained in the sacks.
- c. Please explain whether you view it as in any sense businesslike or consistent with an efficient postal system to charge skin-sack mailers postage that fails by a wide margin to cover the costs of handling the mail involved.
- d. When mailers of skin sacks are charged postage that fails by a wide margin to cover the costs of handling the associated mail, please explain who it is that should be required to cover these costs.
- e. Please explain whether it is your position that mailers should be free to make a decision to begin using skin sacks when the additional postal costs caused by that decision are considerably larger than any increase in postage, even when the increase in postage is positive.

RESPONSE:

- a. The term "skin sack" refers to a sack that contains no more than 24 pieces.
- b-e. Since I am not a costing expert, I do not have sufficient first-hand information or knowledge to answer these questions. Moreover, I am not aware of cost studies that focused on skin sacks. My testimony is intended to examine the impact of the Periodicals rate redesign proposed by Time Warner et al. and to address the broad approach applied by the Postal Service to rate design policy.

While I am concerned that rates cover costs, I generally do not focus on whether rates cover costs for a particular piece of mail, or portion of a mailing. However, as a general notion, there is a concern that fewer pieces per sack means that there is a greater cost per piece for each sack handling. With that in mind, efforts to address the "skin sack" issue should take into account these additional costs and any impact on customers, along with other potential areas such as service quality -- whether real or perceived. Postal ratemaking should and does address the issue of mail preparation, be

it skin sacks or other types of containers, automation compatibility, presort levels, and dropshipment. These factors are considered in the broad context of the rates covering costs for the subclass, impact on customers, real or perceived issues relating to service, and a host of other factors.

TW et al./USPS-RT2-2. The right-hand two columns of Table 1 on page 4 of your testimony contain 11 percentage figures, all except the figure of 1.34% being an extreme for a category. For each of these 11 percentage figures, please provide the number of sacks and the number of pallets, including the average number of pieces per bundle and the average number of bundles per container.

RESPONSE:

See the following table:

Publication Size	Publication ID	Editorial %	Estimated Postage Change (%)	Number of Sacks	Number of Pallets	Average # of Pieces per Bundle	Average # of Bundles per Container
Small	S10	97%	0.2%	33	0	13.856	4.636
Small	S1	65%	67.1%	320	0	12.569	1
Small	S24	33%	-5.0%	142	0	20.27	1.254
Small	S11	68%	79.4%	23	0	11.40	1.087
Medium	M10	53%	-23.1%	496	3199	12.944	103.66
Medium	M1	100%	23.5%	1026	12	13.04	4.007
Medium	M20	58%	-23.2%	417	981	12.77	119.14
Medium	M11	92%	24.1%	935	72	12.022	11.197
Large	L1	55.0%	1.34%	5483	154	11.612	6.922
Large	L11	61.0%	-24.5%	2585	11433	16.104	150.887
Large	L2	85.0%	-4.1%	4194	265	11.512	12.354

Please note that for selected publications where preparation data were obtained from PostalOne mail.dat files (large and medium strata), all mail.dat files for the selected publication were used in the analysis. For these publications the sack and pallet counts do not represent the number of sacks and pallets used to mail a single issue. Data from multiple mailings were used, when available, to better represent the impact of the proposed rates. Treating multiple mailings separately captures the impact on back issues and supplemental mailings, as well as the effect of variations in copy weight or circulation.

TW et al./USPS-RT2-3. On page 7, lines 21-22, you indicate that 10 percent of Periodicals volume "could represent more than 20,000 small Periodicals publications, and a large proportion of the editorial content in Periodicals."

a. In Postal Fiscal Year 2003, there were just over 8.5 billion Outside County Periodicals pieces. Ten percent of that volume would be 850 million pieces. If these are the pieces of the 20,000 small publications you reference, please describe in detail how you would measure their proportion of the editorial content of the Periodicals subclass.

b. Do you have any basis for disagreeing that the per-piece and per-pound editorial discounts in the TW et al. proposal give substantial recognition to the editorial content in these 20,000 small publications? Explain any disagreement.

c. Please explain whether it is your contention that the editorial content in these 20,000 publications should as a rate-setting matter be singled out and given more recognition than the editorial content in the other publications of the subclass. If you so contend, please explain the basis for the additional recognition and how much additional recognition you would give.

d. If you were asked to measure the extent of the editorial recognition given to these 20,000 small publications, please explain the measures you would use.

RESPONSE:

a. In my testimony, on page 7, lines 21-22, I indicated that 10 percent of Periodicals volume "could represent more than 20,000 small Periodicals publications, and a large proportion of the editorial content in Periodicals." This statement was based on Table 5 on page 8, which shows "small publications represent 12 percent of the total volume but 84 percent of the titles." I used the quoted words to point out that even if the impact of a change might fall on a small percentage of the total volume, this small percentage of volume could represent a large percentage of Periodicals titles. Since each title contains editorial content, these titles would represent a large proportion of the editorial content produced for publication using Periodicals rates. I believe that is a useful context in which to view the impact. Gauging impact solely on the basis of mail volume can ignore the impact on many of the customers within a classification. The numbers I quote illustrate that point.

b. I agree that the per-piece and per-pound editorial discounts in the TW et al. proposal give substantial recognition to the editorial content in the 20,000 small publications. And, as indicated in my response to a., I believe the assessments of impact should look not only at the number of pieces, but also at the customers within the classification.

c. I do not believe that the editorial content in these 20,000 publications should as a rate-setting matter be singled out and given more recognition than the editorial content in the other publications of the subclass. But the impact on all publications of changes to the current rate treatment of editorial content needs to be considered. I stated in my testimony, at page 9, that "the Postal Service proposes rate design and structure changes only after seriously considering and carefully weighing all the important ratemaking elements and public policy considerations," including the ECSI value represented by the editorial content of all publications. In considering appropriate rate design, the Postal Service uses a broad and balanced approach involving a variety of policy goals. And as I pointed out previously, I see no reason why the Postal Service should merely assess impact as a percentage change on the classification as a whole without trying to assess the effect on the customers within the classification.

d. I do not have a specific measure for the extent of the editorial recognition given to the 20,000 small publications. Please see my response to a. above.

TW et al./USPS-RT2-4. On page 8, lines 4-5, you indicate that "considerably more" can be done to advance the efficiency of Periodicals. Please explain the additional steps that you believe should be taken to advance the efficiency of Periodicals.

RESPONSE:

I stated on page 8 of my testimony that "the Postal Service has been striving to improve efficiency and contain cost increases for Periodicals.... Periodicals rate design has helped with these goals by sending consistent and positive signals to the Periodicals community – introduction of various worksharing discounts, e.g. dropship discounts and pallet discounts, and the recent co-palletization experiments (Docket Nos. MC2002-3 and MC2004-1)." I believe the Postal Service should continue these types of initiatives to advance the efficiency of Periodicals.

In the Answer of the United States Postal Service (February 11, 2004), at pages 22-23, the Postal Service described its efforts to advance the efficiency of Periodicals [footnotes omitted]:

The Postal Service shares many of the concerns expressed in the Complaint regarding potential opportunities to improve Periodicals efficiency through rate design. These issues began being affirmatively addressed through some of the mail preparation initiatives described in Docket No. R2000-1 (for example, reduction in bundle breakage, elimination of skin sacks for carrier route mailings, combined automation and presort mailings, and implementation of vertical flat casing). The rates arising out of Docket No. R2001-1 provided incentives related directly to the palletization of Periodicals and the deposit of those pallets closer to the point of delivery, as well as a new Area Distribution Center (ADC) dropshipping discount. And as mentioned previously, the Postal Service has worked to develop mechanisms for smaller-circulation publications to be combined and prepared in the more efficient manner normally associated with larger-circulation mailings. Despite these ongoing efforts, the Postal Service agrees that there is more to be done to promote efficiency within the Periodicals rate design.

TW et al./USPS-RT2-6. On page 8, lines 12-14, you say: "This redesign needs to take into account revenue leakage from existing activities to ensure that the revenue target is achieved, especially in subclasses with a lean cost coverage."

- a. Please explain how you would define a revenue leakage from an existing activity and how it would differ from a revenue leakage from an activity that does not yet exist.
- b. Please explain how the process of accounting for revenue leakages depends on the cost coverage of the subclass.
- c. Are you aware of any revenue leakages that have not been fully accounted for in the TW et al. proposal?

RESPONSE:

- a. A revenue leakage from an existing activity occurs when such activity remains exactly the same but becomes entitled to a reduction in rates. In other words, this existing activity will be rewarded additional savings without the slightest change in behavior that would help the Postal Service reduce its costs.

For example, assume the Postal Service proposes a discount for improvement in mail preparation that would reduce the Postal Service's costs of processing, transporting, and delivering that mail. Let's assume that all palletized pieces are eligible for the proposed discount. If all eligible pieces were to move from sacks onto pallets, for example, then after the introduction of the discount, there would be no revenue leakage. However, if half of these eligible pieces were already on pallets, then revenue leakage would occur. And if other rates do not increase to recover the leakage, this would cause a negative impact on the overall cost coverage.

- b. Revenue leakage is more of a concern for Periodicals, because the cost coverage is already so low. Revenue leakage could produce a situation in which revenues do not cover costs.

- c. No.

TW et al./USPS-RT2-7. On page 10, lines 2-3, you state that witness Mitchell's testimony contains a comparison between the CPI-U and the markup index for Periodicals.

- a. Generically, please explain the meaning that would attach to any comparison between the CPI-U and the markup index for Periodicals.
- b. Please point more specifically to any place in Mitchell's testimony where the CPI-U is compared to the markup index for Periodicals.

RESPONSE:

a. In general I believe that a comparison between the CPI-U and the markup index for Periodicals should be carefully considered, and may be particularly affected by a variety of factors described in b. below.

b. My testimony should not have stated that witness Mitchell compared the CPI-U index to a Periodicals Rate markup index. It should state that witness Mitchell compared the CPI-U index to "an index of Periodicals rates, at a constant markup index" (Docket No. C2004-1, TW et al.-T-1, at 10). An appropriate revision to my testimony will be filed shortly.

My revision to the description of witness Mitchell's analysis does not affect the balance of my testimony in any way. In that testimony I point out that one way to look at the changes in Periodicals rates over the past two decades is to look at the price of an average Periodicals piece. Indeed, I doubt that comparing the CPI-U index to Mr. Mitchell's "index of Periodicals rates, at a constant markup index" contributes usefully to the Periodicals pricing discussion. Witness Mitchell's comparison relies on assumptions that are not necessarily realistic or appropriate, and these assumptions render that comparison not meaningful for pricing Periodicals.

Implicit in Mitchell's comparison presented in Graph 1 of his testimony is the idea that Periodicals subclasses either would or should have maintained the same markup

index over approximately a two-decade period. These assumptions are flawed. They inappropriately expand the role of the markup index from being a useful tool for describing relatively contemporaneous rate changes to being a long-run normative pricing rule.

Maintaining a constant markup index over time violates reasonable commonsense pricing principles. This is especially true over long periods of time when significant structural changes are occurring in rate designs and mail mixes. The following example illustrates the problems inherent in assuming a constant markup index.

In this simplified illustration, the Postal Service offers two products, A and B, each having the volume variable costs and institutional cost burdens shown in Table 1. The markup for each product is 100 percent, and the markup index is 1.00 for both A and B.

Table 1

	Product A	Product B	All Products
Volume Variable Costs	25	25	50
Institutional Costs	25	25	50
Total Revenue Requirement	50	50	100
Markup	100%	100%	100%
Markup Index	1.00	1.00	1.00

Table 2 shows what might happen after a 20 percent increase in all costs (except for Product A's volume variable costs) were factored into rates as a result of an omnibus rate case. In this analysis, let's assume that all other factors are the same as they were before the cost increase. Product A's unit costs could have remained constant for any number of reasons. One possibility is that underlying costs did increase by 20 percent

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(or 5 units out of 25), but that a worksharing opportunity worth 5 units exactly offset the volume variable cost increase. If the Postal Service proposed, and the Commission agreed, that each of the two products should again bear equal unit shares of the institutional cost burden, the resulting markups, markup indexes and average price increases would be as shown in Table 2.

Table 2

	Product A	Product B	All Products
Volume Variable Costs	25	30	55
Institutional Costs	30	30	60
Total Revenue Requirement	55	60	115
Markup	120%	100%	109%
Markup Index	1.10	0.92	1.00
Average Rate Increase	10%	20%	15%

It is worthwhile observing that as a result of this pricing approach, which is not only plausible, but also reasonable, Product A's markup and markup index both rise, while Product B's markup is the same as it was previously, but its markup index has fallen. Looking at the average rate increases, Product A enjoys a less-than-average increase, which is reasonable and consistent with its slower rate of cost increase. Product B has the full 20 percent cost increase passed along in rates. Again, this seems reasonable and consistent with the movement in underlying costs.

Now, suppose that instead of maintaining equal sharing of the institutional cost burden, the Postal Service and the Commission decided to impose the notion of constant markup indexes. Table 3 shows the outcome. Since Products A and B had equal markups before the cost increases, constant markup indexes would mean that A and B must have equal markups after the rate change.

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Table 3

	Product A	Product B	All Products
Volume Variable Costs	25	30	55
Institutional Costs	27	33	60
Total Revenue Requirement	52	63	115
Markup	109%	109%	109%
Markup Index	1.00	1.00	1.00
Average Rate Increase	4%	26%	15%

But imposing constant markup indexes has two effects that, in my view, are neither reasonable nor sound. First, the assumption of constant markup indexes reduces the relative share of institutional costs borne by Product A below what it was in the beginning (Table 1), and it increases the burden for product B. This happens despite the fact that there has been no change in the pricing factors that are used to develop institutional cost shares.

The second effect is that imposing constant markup indexes causes Product A to *experience a rate increase that is far below average*, while at the same time exaggerating Product B's rate increase far above both the system-wide average increase (15 percent), and the 20 percent rate of increase in its own costs. I believe that these outcomes show convincingly that it is neither reasonable nor appropriate to assume that constant markup indexes would or should be used as an element in developing product prices.

I suggested earlier in this response that one way for Products A and B to experience different cost increases would be for A's mailers to engage in worksharing while B's mailers do not (or for A to enjoy more extensive worksharing than B) over the time period between rate cases. But this is by no means the only scenario that would

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bring about the situation I have described. Any change that affects the volume variable costs of the two products differently (for example, different mail processing productivities, changes in fuel costs, etc.) can lead to Product A's costs increasing more slowly than Product B's or vice-versa.

While I have simplified the products and pricing for this illustration, the conclusions drawn from Tables 1-3 do not depend on either the fact that my illustration has only two products, or the fact that Table 1 starts the analysis with both products having equal markups.

As a general principle the Postal Service seeks over time to develop rates for products that are fair and equitable when all relevant factors are taken into account, including unit contributions. As seen in my illustrative example, obliging any one product's markup index to hold constant over time can lead to obviously inappropriate outcomes. It is wholly unrealistic to assume—even for the purposes of analysis and exposition as witness Mitchell has done—that the Postal Service would have sought to maintain Periodicals' markup index constant in light of the massive changes in worksharing opportunities and productivity investments that have occurred throughout the Postal Service over the past two decades.

Witness Mitchell's testimony implies that his constant markup index Periodicals rate index somehow reflects the "correct" or "natural" price path for Periodicals prices over the last two decades. I disagree.

In a situation where there have been massive changes in relative costs, it is more appropriate to examine how unit contribution, as well as markup or cost coverage, has tracked over time. Including unit contribution for this kind of analysis does not mean that

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the Postal Service believes that the markup index has no value as a descriptive tool. Nor does it mean that the Postal Service believes that other percentage-based or relative markup measures should be neglected and only unit cost contribution be retained for guiding pricing strategy or be the primary focus.

In fact, the Postal Service is fully aware that focusing solely or primarily on unit contributions can also lead to inappropriate pricing policy. There are good and valid reasons why, for example, Priority Mail's unit contribution is significantly higher than First-Class Mail's, even though they both share important attributes like relatively expeditious service and closure against inspection.

On the other hand, the Postal Service believes that looking at unit contribution may provide additional insights beyond those obtained looking only at cost coverages or percentage markups. An illustrative example arises when comparing two versions of the same product, or two highly similar products, one heavily drop-shipped and the other not. In this instance, the cost coverage may be much higher on the heavily drop-shipped version and much lower on the non-drop-shipped version. But examining the unit contribution of the two rate categories and relevant demand information could reveal that, far from being unfair, the pricing on the heavily drop-shipped mail piece is appropriate, or conceivably, even too low.

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TW et al./USPS-RT2-8. On page 10, in the paragraph beginning on line 6, you discuss per-piece revenue indexes and say specifically, at lines 8-10: "In this context, the relevant data are the actual postage paid by the mailers as reflected in revenue per piece for the Outside County subclass." In Table 6 on page 11, you compare a per-piece revenue index with the CPI price index.

- a. Please explain whether you contend that a per-piece revenue index is a price index. If you do, please provide a reference to the literature on price indexes that shows the construction (i.e., variables involved and weighting schemes) of a per-piece revenue index and that explains the sense in which it is a price index.
- b. Do you agree that a number of factors affect per-piece revenue that would not or should not affect a price index? Explain any disagreement.
- c. Within the framework of a fixed schedule of postal rates, such as the schedules shown in the Recommended Decisions of the Postal Rate Commission, suppose a mailer began to dropship and his per-piece postage declined. Would you contend that this mailer had experienced a rate reduction?
- d. Would you contend that a reduction in per-piece revenue is a good indication that the Postal Service has been successful in controlling its costs?
- e. Suppose over the course of a given year the rate of inflation is 6 percent, the Postal Service's costs increase 10 percent, and there are no changes in the level of volume or in the qualitative characteristics of the service provided. At the end of the year, the Postal Service increases each rate cell by 10 percent, in order to maintain a cost coverage of 113 percent. Just after the rate increase, mailers begin to dropship to such an extent that their average per-piece postage, after factoring in the rate increase, increases just 4 percent. Please explain whether you would contend that the Postal Service has been successful in controlling its costs, that mailers should not be concerned about the relation between inflation and rates, and that mailers should be pleased with the level of their postage bills.
- f. Assume the same situation as in the previous part of this question except: at the end of the year, no changes in postal rates are made and it is accepted by the Rate Commission that a cost coverage of 103 percent is suitable. If mailers make the same dropship decisions and their average per-piece postage declines 6 percent, please explain whether you would contend that the Postal Service has been successful in controlling its costs, that mailers should not be concerned about the relation between inflation and rates, and that mailers should be pleased with the level of their postage bills.

RESPONSE:

a-b. Let me clarify the context in which revenue per-piece was discussed in my testimony. What I specifically stated in the sentences prior to the lines 8-10 in question was that this data needs to be interpreted in a broader context, while I also made a reference to footnote 4 on pages 11 and 12 of witness Mitchell's testimony that

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discusses the issue of volume shifts among various worksharing categories. The reason I believe that revenue per-piece provides a broader context in this analysis is that revenue per-piece for Periodicals was not only affected by worksharing but also by changes in eligibility rules. For example, currently, automation compatible barcoded presort rates are based on the bundle label rather than the container label. Non-unique 3-digit pieces are currently eligible for 3-digit rates as opposed to basic rates. Both of these eligibility changes took place within the time period used by witness Mitchell for the comparison. Although revenue per-piece data might fall short in terms of mail mix changes due to additional worksharing, it does reflect the impact of the aforementioned eligibility changes on Periodicals customers.

I have not used the term "price index" to describe my use of revenue per-piece in the section of my testimony to which you refer. Moreover, I am not aware of an exclusive set of criteria which generically define a "price index," and I do not know what significance you might ascribe to the term. As it is not relevant to my testimony, I have no need to contend that revenue per piece is or is not a "price index."

c. It depends. If a mailer began to dropship and his or her expenses to qualify for the dropship discount were less than the discount, and the circumstances of dropshipping otherwise caused no diminution in the value of the mail service, then I would contend that the mailer had experienced benefits commensurate with the benefits of a rate reduction. Alternatively, if the mailer began dropshipping, and the total costs of dropshipping exactly offset the dropship discount, from the mailer's perspective, no effective rate reduction would have occurred. Even under these circumstances, however, it is conceivable that dropshipping would increase the value of the service

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(e.g. faster delivery), and there thus could be alternative benefits other than a "rate reduction," per se.

d. Not necessarily. It may reflect success of joint efforts by the Postal Service and the mailers to control postal costs. Consider the following scenario. An unsophisticated mailer prints its mailing labels alphabetically, unaware that merely by hitting a button, it could print its mailing labels by address sequence, qualify for presort discounts, and save the Postal Service substantial costs when sorting its mail. If the mailer subsequently gets clued in and makes the change, with regard to that mailer, both the Postal Service's cost per piece and revenue per piece would drop. Under such circumstances, the drop in revenue per piece could be considered a reflection of joint success in controlling postal costs. However, it may not reflect success of joint efforts by the Postal Service and the mailers to control postal costs, if the reduction in revenue per-piece happens to be the result of changes in eligibility rules.

e.-f. In neither instance would I unequivocally contend that the Postal Service had been successful in controlling its costs, or that mailers should not be concerned about the relation between inflation and rates. In both instances, however, it appears that mailers have identified means to mitigate their postage bills. Whether mailers should be pleased about their ability to mitigate their postage bills may relate to the level of the workshare costs they must incur in order to achieve that mitigation. The greater the proportion of the discounts that are offset by workshare costs, the smaller the level of satisfaction likely to be associated with mitigation of the postage bills.

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TW et al./USPS-RT2-9. At page 3, line 20, and page 7, line 14, you refer to 29,979 publications.

- a. Please confirm that this number refers to the universe of Outside County Periodicals. If not confirmed, please explain what it refers to. If the number includes In-County Periodicals, then please state how many of this total are Outside County. If it does not include In-County Periodicals, then state how many additional Periodicals are In-County.
- b. How do you know that there are 29,979 publications?
- c. Please describe the database that the Postal Service maintains that enables it to keep a count of the number of Periodicals currently being published. Describe also the procedures by which this database is updated and how frequently such updates occur.
- d. Assume that a given Periodical stops publishing. By what method(s) is this fact ascertained and transmitted to those responsible for maintaining the list of active Periodicals? Does it depend on notification by the publisher that he has stopped publishing? Does it depend on the Postal Service discovering that mail from this particular Periodical is no longer being entered into the system? Please explain fully.

RESPONSE:

- a. The number (29,979) does not correspond to the universe of Outside County Periodicals, although I understand how you could reach that misunderstanding based on the wording of some of my testimony. Instead, it is the number of observation units in a database that was specifically constructed for purposes of comparing mail preparation options and characteristics across Outside County publications. In general, each observation unit relates to an individual publication. In some instances, however, as explained below, some observation units relate to different versions or sets of copies of a publication printed and entered in discrete locations. Because of this feature of the database, the number of observation units would tend to be greater than the universe of Outside County Periodicals. The extent to which that might be true can be seen in the table presented below.

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On the other hand, the source of inputs to the database was information from the FY 2003 PERMIT system. In FY 2003, 97.24 percent of Outside County Periodicals revenue was accepted at PERMIT equipped offices, compared with 68.34 percent of In-County revenue accepted at PERMIT equipped offices. (As also explained below, publications with mixed In-County/Outside County distribution were included in the data base, while publications with distribution limited to In-County were excluded.) Thus, while almost all Outside County Periodicals would be expected to be picked up in a database developed from the PERMIT system because of the high percentage of subclass revenue obtained from offices linked to that system, the possibility exists that some Outside County publications could be omitted. In this sense, the number of observation units theoretically could be less than the universe of Outside County Periodicals. The extent to which that might be true is unknown, because we do not know how many publications have potentially been omitted due to the limitations of the PERMIT system data. On balance, it seems unlikely that the number of omitted publications would exceed the number of observation units added by the procedure discussed above. Overall, though, it is clear that there are two effects, working in opposite directions, which preclude any claim (other than by sheer coincidence) that the number of observation units exactly coincides with the universe of Outside County Periodicals.

With respect to the matter of In-County publications, the fact that almost one-third of the revenue for the In-County subclass comes from non-PERMIT offices suggests that information based on the PERMIT system is unlikely to produce an accurate measure of the total number of In-County publications. Some other source of

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information would be needed for that purpose, which was beyond the scope of what I was attempting to address in my testimony.

b.-c. As explained above, my testimony actually was not intended to be equated with a claim of knowledge that there are 29,979 Outside County publications. Moreover, it would also be a mistake to confuse the database constructed for purposes of my analysis with an ongoing database maintained (and routinely updated) by the Postal Service to keep count of the number of Periodicals currently being published. Nevertheless, I can explain how the 29,979 figure was derived.

For this analysis, the PERMIT system was used to construct a database of Periodicals postage statement form 3541 information for FY 2003. The PERMIT system information was linked to a database of Periodicals statement of ownership (form 3526) information to obtain figures on publication issue frequency. The 29,979 publications used in the analysis refers to USPS publication and acceptance office combinations for which postage statement form 3541 information was entered into the PERMIT system in FY 2003 and form 3526 information was available for the USPS publication number.

The purpose of the analysis was to demonstrate the impact of the proposed rates on publications with similar preparation characteristics. We chose the USPS number and acceptance office combination as the unit of observation because we believe this more accurately reflects the preparation characteristics of the mailing. That is to say, the preparation of a national mailing of a publication with a circulation of 50,000 copies that is prepared independently at 50 separate locations is likely to be more similar to a publication with a circulation of 1,000 pieces than it would be to a publication with circulation of 50,000 pieces prepared at one location. Therefore, for purposes of this

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analysis, such a publication would have contributed 50 observations units to the database.

The aggregate count of observation units in this analysis thus includes multiple entries for non-Centralized Postage Payment publications that present mail at multiple offices. The count also includes publications that enter volume at both In-County rates and Outside County rates. The count excludes publications that enter all mail at In-County rates, publications entering Periodicals volume at offices that are not connected to the PERMIT system, and publications for which no 3526 issue frequency information was available. The FY 2003 database constructed from the PERMIT system contains 26,318 unique USPS publication numbers and 31,521 USPS publication number acceptance office combinations. The 5,203 additional observations units (i.e., the difference between 31,521 and 26,318) relate to 3,540 different unique USPS publication numbers. The distribution of USPS publication numbers and USPS publication number acceptance office combination is as follows:

Description	Unique USPS No's	Database Records
Total	26,318	31,521
Pending Publication Records	22	291
All In-County USPS No's	77	101
Missing 3526 Information	1,124	1,150
Some In-County Volume	9,614	9,817
All Outside County Volume	15,491	20,162
Non-PERMIT	Unknown	Unknown

Focusing on the second column, the 29,979 observation units (perhaps oversimplistically reported in my testimony as "titles") can be derived either by adding the two rows of Some In-County Volume and All Outside County Volume, or by starting with the 31,521 Total row and subtracting each of the next three rows.

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d. To my knowledge the Postal Service does not maintain a national list of active Periodicals. To my knowledge the Postal Service can only identify publications that have ceased entering mail by the publication's failure to enter 3541 data in the PERMIT system, or by the publication's failure to file a Form 3526 (Annual Statement of Ownership, Management, and Circulation).

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TW et al./USPS-RT2-10. Please describe the nature of the information the Postal Service has about each of the 29,979 Periodicals referred to in your testimony. In particular, please include in your answer whether the following characteristics are known:

- (1) subclass (regular, science of agriculture, nonprofit, classroom);
 - (2) whether or not a publication is a requester publication;
 - (3) publication frequency;
 - (4) approximate annual volume;
 - (5) percent editorial content;
 - (6) shape;
 - (7) any other characteristics (please list).
- b. To the extent that these facts are known, how are they updated on a regular basis?

RESPONSE:

a-b. Through the PERMIT system the Postal Service is able to collect information from a periodical's postage statement (form 3541). Each record in the PERMIT system contains information for each form 3541 presented to the Postal Service at a PERMIT system equipped acceptance office. The PERMIT system record contains information on the subclass, the number of requester copies, editorial content and shape. In addition to these characteristics the PERMIT record contains information relevant to calculating postage and billing such as:

- advertising pounds and copies by zone
- the number of pieces and copies by presort rate element
- the number of pieces receiving pallet discounts
- the number of pieces receiving entry discounts
- editorial pounds
- USPS publication number

The PERMIT system is updated when mailings are presented to the Postal Service.

The Postal Service also maintains a database of form 3526 data that includes the

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publication's name and issue frequency. This database is updated upon receipt of a new form 3526. The Postal Service can calculate approximate annual volume for a particular USPS publication number by aggregating data contained in the PERMIT system. However, to my knowledge this is not done on a routine basis.

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TW et al./USPS-RT2-11. Does the Postal Service make use of any non-postal data sources in order to keep track of the number of active Periodicals? If yes, please identify all such sources and explain how they are used.

RESPONSE:

To my knowledge the Postal Service does not use any non-postal data sources in order to keep track of the number of active Periodicals.

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TW et al./USPS-RT2-12. Please provide an estimate of the number of Periodicals, corresponding to your current estimate of 29,979, for each year from 1970 forward (or as far back toward 1970 as data are available).

b. For each year for which such an estimate is available, please provide a breakdown of the total number by subclass, by subscriber versus requester status (controlled circulation), and by publication frequency (daily, weekly, etc.).

c. Additionally, please provide similarly disaggregated estimates, for each year for which data are available, of the number of new Periodicals permits granted in that particular year and, to the extent available, of the number of Periodicals that ceased to exist in that year.

RESPONSE:

As explained in my response to your interrogatory 9, the figure of 29,979 was not intended to constitute, and should not be viewed as, an accurate estimate of the current overall number of Periodicals, or even of the Outside County portion of Periodicals.

Therefore, attempting to replicate the same analysis going back in time would not produce such an estimate for any prior years. (Any attempt to use PERMIT data over time for these purposes would be particularly confounded because of the difficulty of distinguishing true changes in the underlying series versus changes in the coverage of the PERMIT system.) Efforts to explore other potential sources within the Postal Service of a series estimating total number of Periodicals going back in time on an annual basis were not successful. The existing record keeping systems were primarily designed to respond to inquiries regarding the current status of a single publication. The computer platforms upon which these systems rely were implemented many years ago, and are not as flexible as might be the case were the systems being designed today. Even if aggregations of the available information could more readily be extracted from these systems, however, the accuracy of estimates might still be in doubt because obtaining such estimates was not a primary objective of the systems as designed.

Specifically, the Postal Service has no certain mechanism for identifying and eliminating

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from its centralized lists periodicals which have ceased publication. This could result in estimates which overstate the number of current publications. Moreover, minor variations over time in data input could cause multiple listings for the same publication, also leading to potential inflation of aggregate estimates. In light of these limitations, it is my understanding that the Postal Service has no reliable information to provide at this time that is likely to meet the objectives of the inquiry.

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TW et al./USPS-RT2-13 Starting at page 3, your testimony describes a random sample of 55 publications, including 24 small, 20 medium and 11 large publications. In Tables 2, 3 and 4 you compare your estimates of the per-piece postage each publication would pay under the rates proposed by Time Warner et al. in this docket with the rates they pay under the current rate structure.

- a. Please confirm that, in order to calculate the per-piece postage that a publication would pay under the proposed rates, one needs, besides the information already provided in your tables, all the information listed below (with the exception that some pieces of information may not be needed for letter-shaped publications). If you believe some of the specified pieces of information are not needed, please specify any other information you would use instead:
 - (1) whether the pieces are letter- or flat-shaped;
 - (2) whether the pieces are AFSM-100 machinable;
 - (3) whether the publication belongs to a preferential subclass and whether it is a Science of Agriculture publication;
 - (4) the percentages of pieces that correspond to each combination of bundle presort and auto/non-auto that are defined in the piece rate column of the proposed rate table (Complaint, Exhibit B), specifically carrier route basic, carrier route high density, carrier route saturation, 5-digit auto, 3-digit/SCF auto, ADC auto, MADC auto and 5-digit, 3-digit/SCF, ADC and MADC non-auto.
 - (5) the number of bundles, for a given number of pieces, that has each of the container presort/bundle presort combinations identified in the bundle rate column of the proposed rate table;
 - (6) the number of sacks, for a given number of pieces, that has each of the container presort/entry point combinations identified in the sack rate column of the proposed rate table;
 - (7) the number of pallets, for a given number of pieces, that has each of the container presort/entry point combinations identified in the pallet rate column of the proposed rate table; and
 - (8) the percentage of publication pounds that is entered in each of the postal zones identified in the pound rate column of the proposed rate table.
- b. If for some of the 55 publications you were not able to obtain all of the information needed, as identified above, for an exact application of the proposed rates, please describe in detail what information you used.

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- c. For each of the 55 publications, please provide the data you used corresponding to each item identified in parts a and b above. Please provide the information electronically in an Excel table, where the publications are identified the same way as in your tables 2, 3 and 4, and all information used for a given publication is entered on the same row.
- d. Please provide, for each of the 55 publications and again in Excel format, the following additional information:
 - (1) frequency of publication (issues per year);
 - (2) number of mailed outside-county pieces per issue;
 - (3) whether a mail.dat file was available from which information of the type described above could be extracted;
 - (4) whether it is a requester publication;
 - (5) whether the issue you analyzed participated in a comail program;
 - (6) whether the issue you analyzed participated in a co-palletization program;
 - (7) whether the issue you analyzed participated in a pool dropship program;
 - (8) whether the issue you analyzed benefited from any of the experimental co-palletization dropship discounts established in Docket No. MC-2002-3.
- e. If, in response to POIR No. 2, you expand your sample to beyond 55 publications, please provide the information requested in parts c and d above also for the additional publications.

RESPONSE:

a-b. Confirmed.

In addition to the information listed above in (a)(1)-(4), we used data on the entry point facility ZIP Code and destination ZIP Code of each container in the mailing; the number of pieces receiving the DDU, DSCF, and DADC discounts in the mailing; the containerization of pieces by postal zone, the length, width and thickness of pieces; and the number and presort level of the "parent pallets" and "child sacks". (A "parent pallet" is a pallet containing sacks, "child sacks" are sacks residing on a parent container.)

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c.-e. With the exception of the information requested in (d)(5)-(8), I expect the requested information to be provided in USPS-LR-1/C2004-1. I understand that a motion to establish protective conditions regarding that material is pending.

To my knowledge the Postal Service does not maintain a database of publications participating in co-mail, co-palletization, pool dropship or any programs established in Docket No MC-2002-3. One field, "Co-mail evidence", is included on the "Summary" sheet of USPS-LR-1/C2004-1 to provide an imperfect measure of a publication's participation in co-mailing or co-palletization. The value of this field is "Yes" if the publication was associated with at least one mail.dat file that contained multiple publications.

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TW et al./USPS-RT2-14

- a. Please confirm that flats machinability cannot be determined from mail.dat files.
- b. Please confirm that flats machinability cannot be determined from Periodicals mailing statements (form 3541).
- c. Please explain how you determined, for each of the 55 publications you sampled, whether or not to assume machinability for the purpose of estimating the impact of the proposed rates.

RESPONSE:

a-c. Not confirmed. The 02-2 version of the mail.dat files contains a field (position 129 of the MPU table) for AFSM100 compatibility. To determine piece machinability this field is used when available. In instances where this field was blank or the file was not version 02-2, the length, width and thickness in the MPU table were used to determine if any of the listed dimensions would result in the piece not being AFSM100 compatible. For observations obtained through qualification reports, the acceptance clerks were asked to determine machinability of the piece. When we lacked information that would explicitly allow us to determine machinability we assumed that the pieces were AFSM100 compatible.

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TW et al./USPS-RT2-15

- a. Please confirm that whether or not a Periodicals sack or pallet is entered at the destinating BMC (DBMC) cannot be determined from mail.dat files. If not confirmed, please explain how you would make such a determination.
- b. Please explain how you determined, for each of the 55 publications you sampled, the number of sacks and pallets, at different presort levels, that are entered at the DBMC. If such determination could not be made, please explain what assumptions were used.

RESPONSE:

a-b. Not confirmed.

The mail.dat CSM file contains fields that indicate the ZIP Code of the facility where each container is entered. The entry point facility ZIP Code and destination ZIP Code of each container were used, in conjunction with the piece entry discount information and DMM labeling lists, to determine the appropriate entry point facility type for each container. For "child sacks", the destination ZIP Code of the "parent pallet" was assumed as the entry point ZIP Code of the "child sacks" for purposes of assigning the entry point for these sacks. For example sacks on BMC pallets are treated as DBMC entered sacks. This was necessary because, to my knowledge, the proposed rate structure did not explicitly deal with this type of preparation and I assumed that assigning "child sacks" the entry point of the parent containers would lead to charging "child sacks" for sack sorting costs that they did not incur.

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TW et al./USPS-RT2-16 Please explain how you went about determining the postage under proposed rates for each sampled publication for which mail.dat files were available. Please include a specification of the type(s) of computer software used.

RESPONSE:

A Matlab program was developed to link the MPU, CSM, PQT, and CQT tables and aggregate the information in the mail.dat. This program generates a table of package characteristics and a table of container characteristics that are used in the analysis of the proposed rates. The package table produced summarizes the number of bundles, barcoded pieces, and non-barcoded pieces by container type (sack, pallet, tray, tub), container level (by mail.dat CSM container level definitions), container entry facility type (OAO, OSCF, OADC, OBMC, DBMC, DADC, DSCF, DDU), parent container entry facility, parent container type, parent container level, and bundle level (mail.dat PQT package level definitions). The container table aggregates the number of containers by container type (sack, pallet, tray, tub), container level (by mail.dat CSM container level definitions), container entry facility type (OAO, OSCF, OADC, OBMC, DBMC, DADC, DSCF, DDU), parent container entry facility, parent container type, and parent container level. FORTRAN programs are then used to aggregate these tables into the fields needed to evaluate the rates and to extract needed 3541 postage statement information from the CQT, CSM and MPU tables. The postage calculation is conducted using Excel. The Excel workbook used will be provided in USPS-LR-1/C2004-1.

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TW et al./USPS-RT2-17

- a. Please explain how you went about determining the postage under proposed rates for each sampled publication for which mail.dat files were not available, such as very small publications. Please include an explanation of all assumptions used, whether and to what extent physical observations of actual mailings were used and how each data element, needed to determine impact of the proposed rates but not available on mailing statements, was calculated.
- b. Tables 2 and 3 indicate several publications with editorial content either equal to 100% or close to 100%. If for any of these you did not have access to a mail.dat file, how did you determine the zone distribution?

RESPONSE:

- a. For small publications, the acceptance offices of the selected publications were contacted and asked to supply qualification reports and mailing statements for the selected publications. Publications that did not produce qualification reports were excluded from the sample, as we did not have sufficient time to develop manual data entry forms. In all cases, the documentation received conformed to the documentation standards outlined in DMM P012. The qualification reports were entered into Excel tables and container, bundle and pieces counts were aggregated by the necessary values needed to conduct rate comparisons. For this analysis it was generally assumed that each group destination listed in the qualification represented one bundle. An exception to this rule was used for group destinations in ADC and MADC containers where the listed group destinations all contained fewer than 6 pieces. These pieces were aggregated into one bundle and assigned the bundle presort level consistent with the sack presort level, that is, ADC for ADC sacks and MADC for MADC sacks.
- b. The postage statements of sampled publications with 100% editorial content provided information on the number of copies by postal zone and the weight of each copy. This information was used to calculate the weight for each zone.

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TW et al./USPS-RT2-18 Please refer to Table 5 in your testimony, which breaks down the numbers of Periodicals titles and Periodicals annual pieces according to your grouping of "large," "medium," and "small." Total piece volume is shown as 9,330,984,097, including 1,415,511,644 in the "small" group. A footnote says that "all publications with only within-county volume are excluded."

- a. Please confirm that according to the FY03 RPW data, there were 9.320 billion Periodicals pieces, including 794 million in-county pieces, in FY03.
- b. Please confirm that according to the FY02 RPW data, there were 9.690 billion Periodicals pieces, including 850 million in-county pieces, in FY02.
- c. To which fiscal year do the volume numbers in your Table 5 refer?
- d. Roughly what portion of the in-county mail volume belongs to Periodicals that mail only within the county?
- e. Roughly what portion of the outside county mail volume belongs to Periodicals that also use in-county rates?
- f. Of the 1,415 million pieces that you indicate belong to "small" publications, what if any portion is actually in-county pieces?
- g. Of the 1,415 million pieces that you indicate belong to "small" publications, how many are in the outside county portion of in-county Periodicals?
- h. Please identify, by their designation in your tables 2, 3 and 4, any publications among the 55 sampled that have an in-county component, and confirm that your analysis was applied only to the outside county component.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. The data provided in Table 5 were derived from the FY 2003 PERMIT system database. The FY 2003 PERMIT system data used included the transitional period between the end of the FY 2003 AP reporting and the beginning of the FY 2004 monthly reporting. These numbers were developed only to provide the relative magnitudes of large, medium and small publications and were not intended to be a measure of FY 2003 volume.

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d. I cannot provide an accurate measure of the proportion of Inside-County mail volume that belongs to Periodicals that mail only within the county because doing so would require the detailed 3541 postage statement data available in the PERMIT system and the PERMIT system only covers 68.34 percent of the Inside-County mail revenue. However for the FY 2003 PERMIT database described above, there were 512.4 million Inside-County pieces and of this volume 8.0 million pieces were submitted by publication/entry office combinations that had no volume paid at Outside-County rates.

e. In the FY 2003 PERMIT system database used for this analysis there were 8,947.3 million Outside-County pieces of which 502.4 million were submitted by publication/entry offices combinations that had nonzero volume paid at Inside-County rates.

f. 27.0 percent.

g. 296,663,772.

Observations S3, S11, S12, S13, S18, S19, S20, S21, S23, and S24 were submitted in mailings that had an Inside-County component. The analysis was applied only to the Outside-County portion of the mailing. When a container (bundle) contained both Inside-county and Outside-County pieces, the container (bundle) was excluded. In one instance a mailing contained only two sacks and each contained both Inside-County and Outside-County mail. For this observation the container counts represent the proportion of Outside-County mail in the two sacks.

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TW et al./USPS-RT2-19 During the analysis of 55 randomly sampled publications that you describe in your testimony, was any attempt made to identify realistic ways in which a publication might modify its mailing practices, e.g., by reduced use of "skin sacks," so as to reduce the postage it would pay under the proposed rates? If any such analysis was done, please explain how it was done and describe all findings.

RESPONSE:

No.

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TW et al./USPS-RT2-20 During the analysis of 55 randomly sampled publications that you describe in your testimony, did you in each case focus the analysis only on a single mailing file, or did you also analyze supplemental mailings? Please explain fully.

RESPONSE:

For publications where data were collected via qualification report, we focused exclusively on a single mailing. For publications where mail.dat files were obtained through PostalOne! we used all available mailings associated with the selected publication that had been submitted through PostalOne! between June 2003 and May 2004. This time period was used because the data for this period had been compiled and were available for our use.

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TW et al./USPS-RT2-21 Please refer to your response to TW et al./USPS-RT2-2. Please provide the average number of pieces per bundle and the average number of bundles per container separately for sacked pieces and palletized pieces.

RESPONSE:

First of all, please note that I have revised a few numbers as well as the postage calculation for the 55 observations. Corrections have been made that alter the postage change percentages, though deviation from the previous data appears moderate. Revision to my rebuttal testimony will be filed separately.

As a result, the table below on the following page both replicates the table in my response to TW et al./USPS-RT2-2 (using the revised data), and provides the additional information you have now requested. The shaded area indicates revised values.

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Publication Size	Publication ID	Editorial %	Estimated Postage Change (%)	Number of Sacks	Number of Pallets	Average # of Pieces per Bundle	Average # of Bundles per Container	Avg Pieces/Bundle Sacked	Avg Pieces/Bundle Palletized
Small	S10	97%	0.55%	33	0	13.856	4.636	13.9	0
Small	S1	65%	67.18%	320	0	12.569	1	12.6	0
Small	S24	33%	-5.46%	142	0	20.27	1.254	20.3	0
Small	S11	68%	80.00%	23	0	11.40	1.087	11.4	0
Medium	M10	57%	-22.65%	496	3199	12.944	103.66	10.3	14.0
Medium	M1	100%	23.66%	1026	12	13.04	4.007	12.6	15.6
Medium	M20	58%	-22.26%	417	981	12.77	119.14	10.3	14.4
Medium	M11	85%	22.31%	935	72	12.022	11.197	10.6	12.7
Large	L1	55%	1.44%	5483	154	11.612	6.922	10.7	13.5
Large	L11	61%	-22.51%	2585	11433	16.104	150.887	11.0	16.1
Large	L2	85%	2.48%	4194	265	11.512	12.354	8.9	13.7

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TW et al./USPS-RT2-22 Please refer to your response to TW et al./USPS-RT2-7, in which: (1) you say that you “doubt that comparing the CPI-U index to Mr. Mitchell’s ‘index of Periodicals rates, at a constant markup index’ contributes usefully to the Periodicals pricing discussion” and that Mitchell “relies on assumptions” that the “Periodicals subclasses would or should have maintained the same markup index over approximately a two-decade period”; (2) you describe your testimony as “point[ing] out that one way to look at the changes in Periodicals rates over the past two decades is to look at the price of an average Periodicals piece”; and (3) you discuss certain characteristics of the markup index, such as how it might be affected by an increase in Periodicals worksharing relative to that in other subclasses.

- (a) Please explain how the “price of an average Periodicals piece” is affected by an increase over time in the level of worksharing in Periodicals.
- (b) Do you have any fundamental reason for taking the position that one of the objectives in the development of quantity-weighted price indexes is to abstract from the effects of changes such as changes in product mix and in the degree of worksharing? Explain any non-no answer.
- (c) Please explain how the “price of an average Periodicals piece” is affected by reductions in the cost coverage of Periodicals.
- (d) Please identify with particularity any evidence suggesting that the purpose of Mitchell’s “index of Periodicals rates, at a constant markup index” was anything other than to help isolate and quantify the basic increase in Periodicals costs due to factor prices and resource usage (corrected for changes in volume, product mix, worksharing, and cost coverage).
- (e) Do you agree that another approach to developing an index of basic Periodicals costs would be to identify a complete (i.e., exhaustive) set of component unit costs for the various Periodicals processing, transporting, and delivery operations, and to construct a quantity-weighted index of these components over time (much as is done in the construction of price indexes)? Explain any non-yes answer.
- (f) Has the Postal Service developed a basic cost index for Periodicals of the kind referred to in the previous part of this question? If it has, please supply that index.

RESPONSE:

- (a) Generally speaking, the “price of an average Periodicals piece” will decrease as a result of increasing level of worksharing in Periodicals. I have categorically stated this in my response to TW et al./USPS-RT2-7. An interesting aspect of

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analyzing the price of an average Periodicals piece is that rate eligibility changes could also result in significant changes in this measure. For example, if eligibility changes cause mail previously entered at one workshare rate to become eligible for a lower workshare rate (with no change in mailer preparation), this creates the appearance of an increase in the level of worksharing, when none has actually occurred. By focusing on average revenue per piece, however, it could be discerned under these circumstances that some mailers have effectively received an actual rate reduction.

- (b) What I was suggesting in my response is that constructing a price-index that isolates the price increases from all other factors is a very difficult task in this context, and that is why we may have to look at a variety of variables to understand the history of Periodicals rate increases.
- (c) There is no simple answer to this question. Periodicals cost coverage was reduced to minimize the impact of above-average increases in Periodicals' costs. Depending on the relative change between these two factors, average revenue per-piece could go in either direction.
- (d) I have no reason to doubt that witness Mitchell's purpose was to help isolate and quantify the basic increase in Periodicals cost. However, as I have pointed out in my response, the index constructed does not adequately fulfill that purpose.
- (e) Yes.
- (f) No, not to my knowledge.

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TW et al./USPS-RT2-23 Please refer to your response to TW et al./USPS-RT2-15, particularly your reference to “child sacks” on BMC pallets.

- a. Does the Postal Service accept pallets with Periodicals sacks and BMC presort level? If yes, which DMM section describes such a presort level for Periodicals pallets? Are ASF pallets with Periodicals sacks also permitted?
- b. Among the publications you analyzed, did you in fact encounter examples of BMC pallets with Periodicals sacks? If yes, for what percentage of the publications analyzed did this occur?
- c. Did you assume per-pallet charges for “parent” pallets, in addition to the charges for the “child” sacks? If yes, what per-pallet charges did you assume for (1) mixed ADC pallets and (2) BMC pallets?

RESPONSE:

- a. DMM section M045.3.1 describes the preparation of Mixed ADC pallets of sacks and trays of Periodicals mail. Although the BMC presort level is not specifically mentioned as a required presort level, to my knowledge nothing in this section precludes mailers from preparing Mixed ADC pallets of sacks where all sacks on the pallet destinate in the service territory of one BMC, therefore have an implicit presort level of BMC, and are documented in the mail.dat as BMC “parent” pallets.
- b. Yes. In the sample of 251 publications provided in response to POIR-2, 19 of the 251 publications prepared at least one BMC pallet of sacks.
- c. For Mixed ADC and BMC “parent” pallets we assumed the per-pallet charge of an ADC pallet entered at the DBMC. The per-pallet charge for “parent” ADC, SCF, 3-Digit and 5-Digit pallets was assumed to be equal to the per-pallet charge of pallets of bundles with the same entry and presort level.

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TW et al./USPS-RT2-24 Please refer to your response to TW et al./USPS-RT2-14, where you describe the criteria you used to determine mail piece machinability. Did you, in addition to the criteria mentioned, also consider the 20 ounce weight limit for Periodicals pieces, as specified in DMM section C820.2.4? If no, please explain why not.

RESPONSE:

In the analysis we neglected to include the 20 ounce weight limit for Periodicals copies as specified in DMM section C820.2.4. The pieces for IDs L7, QHS32, QHS43, and QHS95 had copy weights over 20 ounces and, under this criterion, should have been classified as non-machinable.

The revised Time Warner postage calculation is listed in the following table. Revisions to my rebuttal testimony, library reference USPS-LR-1/C2004-1, and my response to POIR No. 2 will be filed separately.

Publication ID		USPS Postage/pc	TW Postage/pc	% Change in Postage/pc
L7	Original	\$ 0.479	\$ 0.399	-16.66%
	Revised		\$ 0.426	-11.06%
QHS32	Original	\$ 0.631	\$ 0.693	9.93%
	Revised		\$ 0.732	16.12%
QHS43	Original	\$ 0.542	\$ 0.611	12.67%
	Revised		\$ 0.650	19.87%
QHS95	Original	\$ 0.660	\$ 0.939	42.27%
	Revised		\$ 0.982	48.89%

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TW et al./USPS-RT2-25 Please refer to USPS-LR-1 and the sampled publications labeled P1LM24, P1LM29, P1LM38 and P1LM54. While shown as having different circulation sizes and different frequencies on the "Summary" worksheet, all the numbers used to determine postage under both current and proposed rates are identical for the four publications, including all numbers of pieces, pounds, bundles, sacks and pallets at all presort levels, entry point categories, etc. Please check the underlying data and confirm whether or not these really are four different publications.

RESPONSE:

According to the information in the mail.dat file, the four sampled publications labeled P1LM24, P1LM29, P1LM38 and P1LM54 are four different publications in the same mailing, either co-mailed or co-palletized.

The 251 observations in USPS-LR-1 were randomly drawn to evenly populate the six size/density groups. For the large and medium size groups, publications were drawn from those publications that had provided mail.dat files to PostalOne!. For the group of medium issue size and low density publications, to which the four publications in question belong, 50 samples were randomly drawn from a collection of only 60 medium size, low density publications in the PostalOne! system. Thus there was a high probability that these four co-mingled publications would be selected.

It is extremely difficult to extract individual publication data, or calculate postage under the Time Warner et al. proposal, for each of these co-mingled publications. Suppose in a mailing there is a SCF pallet with 2000 pieces – 500 for publication A, 600 for publication B, 300 for publication C and 600 for publication D. Under the proposed rate structure, it is not clear how to allocate the container or bundle charge to each publication. Therefore, the same mailing characteristics were applied to each of the four different publications.

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USPS-RT-2

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001**

**COMPLAINT OF TIME WARNER, INC.
ET AL. CONCERNING PERIODICALS
RATES**

Docket No. C2004-1

**REBUTTAL TESTIMONY
OF
RACHEL TANG
ON BEHALF OF
UNITED STATES POSTAL SERVICE**

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Autobiographical Sketch

My name is Rachel Tang. I am an economist in the office of Pricing at the United States Postal Service. Prior to joining the Postal Service in January, 2003, I was employed by Columbia Energy Group (CEG) in Herndon, VA, from 1998 to 2000. At CEG, I was a senior analyst in Risk Management. My responsibilities there included structuring, implementing, monitoring, and evaluating various risk management programs. From 2001 to 2002, I was an independent business consultant to Sino-US Commercial Group and Chase Merchant Services, LLC.

I received a Master's Degree in Industrial Administration from Carnegie Mellon University in Pittsburgh, PA in 1998, and a Bachelor's Degree of Science in Business Administration from City University of New York in Queens, NY.

This is the first time I am testifying before the Postal Rate Commission.

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1 **I. Purpose and Scope of Testimony**

 The purpose of my testimony is to examine the impact of the Periodicals rate
3 redesign proposed by complainants in this proceeding.

4 **II. Background**

 The structural change proposed by the Time Warner complaint would require a
6 large number of publications to alter their mail preparation behavior or face substantial
7 increases that may adversely affect many smaller volume publications. The Postal
8 Service agrees with much of the rationale provided by the complainants for this structural
9 change, but, as in the past, believes that the benefits of significant structural change must
10 be viewed in the light of the impact on affected customers.

 In prior dockets when the Postal Service proposed and the Commission
12 recommended classification changes that led to de-averaging of rates, both the Postal
13 Service and the Commission were sensitive to the impact on customers, particularly
14 those that could face higher rates. For example, in Docket No. R97-1, the Postal
15 Service's proposal split the 3/5 Digit combined presort into 3-Digit and 5-Digit (Docket No.
16 R97-1, USPS-T-34, at 6-12). In Docket No. R2001-1, the Postal Service introduced
17 another level of dropship discount for mail entered at a Destination Area Distribution
18 Centers (ADC) as well as discounts on dropshipment of editorial pounds (Docket No.
19 R2001-1, USPS-T-34, at 5-9). Also, in Docket No. R2001-1, the Postal Service's
20 proposal included discounts for palletized mail (Docket No. R2001-1, USPS-T-34,
21 at 9-11). A common theme in these dockets was to implement this de-averaging while
2 taking into account the impact on non-participants, and adjusting passthroughs, cost
23 allocations, and markups to mitigate rate increases. See, e.g., R97-1, USPS-T-34 at 7;

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Tr.10/4849; R2001-1, USPS-T-34 at 7-9, 11-12; Tr. 7/1202, 1212-1213, 1221, 1248-1249. Time Warner et al. have not demonstrated that there are ways to successfully mitigate the impact of their proposal.

The Postal Service is well aware of the issues relating to mail preparation and the resulting pressure on Periodicals processing costs, and appreciates discussions aimed at improving efficiency for the Periodicals class, including the efforts and thoughts behind the proposal by Time Warner et al. We believe that diverse opinions and their thoughtful articulation aid in the common goal of a vibrant and healthy Periodicals class. However, the classifications proposed by Time Warner et al. could make it difficult to mitigate the impact on those who are not able to make fundamental changes in their mail preparation behavior. The Postal Service believes the benefits of substantive structural changes must be evaluated in the context of other factors such as the impact on non-participants, as well as ease of implementation for all customers and post offices, both large and small.

III. Impact of Complainants' Proposal

The rates proposed in witness Mitchell's testimony (Tr. 3/840) have differing effects on Periodicals publications of different sizes and densities. These effects can be illustrated by dividing Periodicals publications into three groups based on mailed circulation. Small-circulation publications are those with circulations of at most 15,000 copies per issue. Medium-circulation publications are those with circulations between 15,000 and 100,000 copies per issue. Large-circulation publications are those with circulations above 100,000 copies per issue.

In addition to mailed circulation, I divided publications based on density, that is, the geographic concentration of the distribution of a certain publication. Using the percentage

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1 of mail pieces paying the 5-digit (5D) and/or Carrier Route (CR) rates, I defined high-
density publications as publications with more than 30 percent of their mail volume paying
3 5D or CR rates. High-density periodicals with large mailed circulation are usually
4 national publications; those with small circulation tend to be regional publications. Those
5 publications with less than 30 percent of the volume paying 5D or CR rates are defined as
6 low-density publications.

7 I obtained an illustrative sample of publications in each of the three circulation
8 groups. In order to calculate the estimated postage under Time Warner's proposal, it is
9 necessary to obtain data from postage statements, as well as containerization information
10 from either qualification reports or mail.dat files provided by the publications. For some of
11 the sample publications, this information could be retrieved from the PostalOne Electronic
12 verification system. For medium and large publications the sample was drawn from the
13 publications providing mail.dat files to the PostalOne Electronic verification system, with
14 probability proportional to annual volume. For the small publications, information was not
15 available through PostalOne, so I collected data from the corresponding postal business
16 mail entry units where these publications are entered. As a result, the sample of small
17 publications was drawn randomly from the universe of small publications, with probability
18 proportional to annual volume.

19 The result is a random sample of 55 publications drawn from the population of
20 29,979 publications (see Table 5), including 24 small publications, 20 medium
21 publications, and 11 large publications. This sample of publications not only includes
22 publications of different sizes, but also represents various mail characteristics and/or
23 patterns -- some of the publications have very high advertising content, while others have

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none; some are mailed mostly in skin sacks, while some are on pallets and drop shipped close to their destinations.

Assuming the current mailing pattern and characteristics, both current Periodicals rates¹ and the proposed Time Warner rates were applied, and estimated postage payments under both sets of rates were calculated. Table 1 shows an overview of the estimated percentage change in postage under Time Warner's proposed rates.

Table 1: Overview of Estimated Postage Change

	Sample Size		Postage Change (%)	
	Low Density	High Density	Low Density	High Density
Small	10	14	0.6% - 67.2%	(5.5%) – 80.0%
Medium	10	10	(22.9%) – 23.7%	(22.3%) – 22.3%
Large	1	10	1.44%	(22.5%) – 2.5%

Among the 24 small publications, 20 will face a postage increase ranging from 0.6 percent to 80.0 percent under the Time Warner proposed rate structure and rates. Four publications will incur a moderate postage decrease between 1.4 percent and 5.5 percent.

¹ This analysis has been performed without considering any increases that could be expected in the future as part of a general rate increase.

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Table 2 presents detailed information on the estimated change in postage between the current rates and the Time Warner proposed rates for these small publications.

Table 2: Estimated Postage Change – Small Publications

Density	Publication ID	Editorial %	Piece Weight (lb)	Current Postage / Piece	TW Postage / Piece	% Change
Low	S1	65%	0.276	0.301	0.503	67.18%
Low	S2	75%	0.275	0.286	0.424	47.98%
Low	S3	69%	0.181	0.325	0.429	32.01%
Low	S4	100%	0.357	0.266	0.345	29.55%
Low	S5	100%	2.639	0.767	0.989	28.86%
Low	S6	86%	1.221	0.491	0.553	12.53%
Low	S7	100%	0.107	0.244	0.273	12.00%
Low	S8	59%	0.195	0.304	0.315	3.52%
Low	S9	100%	0.197	0.337	0.341	1.27%
Low	S10	97%	0.110	0.229	0.230	0.55%
High	S11	68%	0.161	0.292	0.526	80.00%
High	S12	47%	0.190	0.222	0.335	50.80%
High	S13	60%	0.465	0.256	0.352	37.29%
High	S14	71%	0.405	0.255	0.338	32.64%
High	S15	97%	0.389	0.261	0.316	21.00%
High	S16	41%	0.282	0.231	0.260	12.51%
High	S17	96%	0.460	0.283	0.317	11.99%
High	S18	100%	0.075	0.214	0.234	9.35%
High	S19	75%	0.150	0.186	0.203	8.98%
High	S20	26%	1.903	0.647	0.674	4.10%
High	S22	90%	0.061	0.134	0.132	-1.38%
High	S21	35%	0.127	0.250	0.242	-3.18%
High	S23	42%	0.483	0.324	0.310	-4.26%
High	S24	33%	1.200	0.416	0.393	-5.46%

Table 3 shows the postage impact of the Time Warner proposed rate structure and rates upon the 20 medium-size publications. The estimated postage changes are more evenly dispersed in terms of their magnitude as well as direction. These estimated postage changes range from a 22.9 percent decrease to a 23.7 percent increase.

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1 Table 3: Estimated Postage Change – Medium Publications

Density	Publication ID	Editorial %	Piece Weight (lb)	Current Postage / Piece	TW Postage / Piece	% Change
Low	M1	100%	0.452	0.283	0.350	23.66%
Low	M2	96%	0.383	0.274	0.311	13.29%
Low	M3	50%	0.696	0.446	0.501	12.36%
Low	M4	40%	0.529	0.406	0.414	2.04%
Low	M5	27%	1.996	0.933	0.911	-2.34%
Low	M6	45%	1.195	0.533	0.507	-4.86%
Low	M7	61%	0.649	0.309	0.272	-11.82%
Low	M8	50%	0.488	0.261	0.229	-12.44%
Low	M10	57%	0.556	0.241	0.186	-22.65%
Low	M9	62%	0.418	0.198	0.153	-22.87%
High	M11	85%	0.396	0.275	0.336	22.31%
High	M12	100%	0.574	0.268	0.307	14.63%
High	M13	62%	0.184	0.222	0.253	13.73%
High	M14	41%	0.980	0.473	0.506	7.04%
High	M15	51%	0.758	0.425	0.452	6.49%
High	M16	50%	0.418	0.309	0.327	5.73%
High	M17	50%	0.491	0.280	0.254	-9.28%
High	M18	61%	0.414	0.215	0.186	-13.26%
High	M19	51%	0.581	0.248	0.204	-17.78%
High	M20	58%	0.544	0.228	0.177	-22.26%

2

4 The estimated postage impact of the Time Warner structure and rates on the large
5 publications, on the other hand, seems to be more consistent, with all but two publications
6 paying less postage under the Time Warner rate structure, as shown in Table 4.

7 Table 4: Estimated Postage Change – Large Publications

Density	Publication ID	Editorial %	Piece Weight (lb)	Current Postage / Piece	TW Postage / Piece	% Change
Low	L1	55%	0.389	0.330	0.334	1.44%
High	L2	85%	0.461	0.273	0.280	2.48%
High	L3	75%	0.470	0.271	0.255	-6.02%
High	L4	50%	0.410	0.242	0.217	-10.52%
High	L5	67%	0.278	0.179	0.160	-10.56%
High	L7	60%	1.481	0.479	0.426	-11.06%
High	L8	60%	0.591	0.239	0.209	-12.36%
High	L6	64%	0.417	0.210	0.180	-14.60%
High	L10	45%	0.896	0.312	0.253	-18.98%
High	L9	57%	0.531	0.235	0.188	-19.69%
High	L11	61%	0.427	0.199	0.154	-22.51%

3

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1 The Postal Service recognizes that the results presented in Tables 1-4 are not
based on a statistically random selection of publications. However, these results do
3 indicate the range of potential impacts on different types of publications.

4 With over 80 percent of the small publication sample facing potential postage
5 increases, the Postal Service is concerned about the rate impact on this group of
6 publications. In this sample, 58 percent of the small publications will face at least a 10
7 percent postage increase, 29 percent will face over a 30 percent postage increase, and
8 13 percent will face over a 50 percent postage increase. The results suggest, in no subtle
9 fashion, that small publications are the ones most vulnerable under the rate structure and
10 rates proposed by Time Warner et al.

11 **IV. Rate Design Policy**

12 The aforementioned sampling and assessment listed comparable numbers of
13 sample publications for different size groups to get an even feel of the impact. However,
14 the 55 sample publications, randomly drawn from 29,979 publications, do not depict the
15 true proportion in terms of titles and mail volume in the Periodicals class.

16 As presented in Table 5, the distribution of titles and annual volumes shows that
17 small publications represent 12 percent of the total volume but 84 percent of the titles.
18 Large publications, on the other hand, represent 3 percent of the titles but 68 percent of
19 the total volume. This distribution suggests that Periodicals ratemaking must consider the
20 full range of publication sizes. Even if the impact of a change might fall on less than 10
21 percent of the total volume, that 10 percent could represent more than 20,000 small
22 Periodicals publications, and a large proportion of the editorial content in Periodicals.

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1 Table 5: Count of Periodicals Titles & Volume²

Publication Size	Count of Titles	% of Total Titles	Total Pieces	% of Total Pieces
Small	25,234	84%	1,145,511,644	12%
Medium	3,816	13%	1,871,810,847	20%
Large	929	3%	6,313,661,606	68%
Total	29,979	100%	9,330,984,097	100%

Note:

1. All publications with only within-county volume are excluded.
2. All publications with no reported frequency of issuance are excluded.

There is no doubt that increasing efficiency is an important aspect of rate design and should be assigned considerable weight. In fact, we believe there is considerably more that can be done to advance such efficiency. However, before major classification changes are presented to the Commission, the Postal Service believes that other issues along with efficiency should be addressed, such as the impact on customers, operational readiness, and implementation, as well as the public policy goals for Periodicals. In considering appropriate rate design, the Postal Service believes a broad approach considering a variety of policy goals is needed. In this regard, the Postal Service believes that redesign of rate structures cannot be fully assessed or accomplished without a simultaneous design of the actual rates for the structure. This redesign needs to take into account revenue leakage from existing activities to ensure that the revenue target is achieved, especially in subclasses with a lean cost coverage.

The Postal Service has been striving to improve efficiency and contain cost increases for Periodicals. And we appreciate the efforts of Time Warner et al. to work with us in past and ongoing efforts. Periodicals rate design has helped with these goals by sending consistent and positive signals to the Periodicals community – introduction of various worksharing discounts, e.g. dropship discounts and pallet discounts, and the

² Source: FY2003 PERMIT Mailing System data

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1 recent co-palletization experiments (Docket Nos. MC2002-3 and MC2004-1). In fact, one
can argue that in the past few years, Periodicals have received the most attention in
3 terms of structural changes designed to improve efficiency, as compared to other classes.
4 However, the Postal Service recognizes that more improvements are in order and more
5 can be expected in the future.

6 The Postal Service proposes rate design and structure changes only after
7 seriously considering and carefully weighing all the important ratemaking elements and
8 public policy considerations. The signals to be sent to the publishing and mailing
9 community through rate design should be consistent and positive. A balanced approach
10 with consistent steps to send the right signals and encourage better mail preparation and
11 more worksharing can enhance efficiency without sacrificing the broad diversity of
editorial content in Periodicals.

13 **V. Comparison Between Periodicals Rate Increases and Consumer Price Index**

14 Witness Mitchell poses what he calls "the obvious threshold question": "what is so
15 wrong with the Periodicals rates as to justify a complaint proceeding seeking to effect
16 their reform?" Tr. 3/800. In responding to this question, witness Mitchell discusses
17 increases in Periodicals rates, stating:

18
19 Over a period that extends back into the 1980s, the increases in
20 Periodicals rates have been greater than the increases in the Consumer
21 Price Index, even after the reduced markups recommended by the
22 Commission. The fact that this has been occurring makes it all the more
23 important to search for other avenues of progress, on which this complaint
24 focuses.
25

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1 *Id.* Then he describes this phenomenon in detail, under the heading of "Periodicals
Rates Have Been Increasing Too Rapidly," by comparing a CPI-U³ index to "an index of
3 Periodicals rates, at a constant markup index". (Docket No. C2004-1, TW et al.-T-1, at 10)
4 He concludes that Periodicals rates have been rising too rapidly, especially in the light of
5 technological changes made by the Postal Service and mail preparation changes made
6 by mailers resulting in cost reductions. Tr. 3/806-08.

7 While witness Mitchell accurately describes the data, interpreting this data requires
8 broadening this picture a bit. In fact, witness Mitchell alludes to a broader approach in
9 footnote 4 on pages 11 and 12 of his testimony. Tr. 3/808-09. In this context, the relevant
10 data are the actual postage paid by the mailers as reflected in revenue per piece for the
11 Outside County subclass. When the revenue-per-piece ratio is indexed, the spread
12 between CPI-U and the revenue-per-piece index is substantially closer than implied by
13 witness Mitchell's comparison. Further, if these two indices are compared using rates
14 resulting from Docket No. R94-1 as the base, the increase in the revenue-per-piece index
15 is actually lower than the change in the CPI-U index. (See Table 6: Revenue-per-Piece vs.
16 CPI-U.) The revenue-per-piece ratio reflects changes in mail mix, especially due to
17 worksharing that is paid for by the mailers, with the actual expenditure by the mailer
18 including both postage and the cost of worksharing activities. Changes in rate design
19 resulting from recent rate cases have not simply been across-the-board increases, but
20 have also provided mailers with opportunities to avoid postage increases through limited
21 changes in their mail preparations practices.

³ CPI-U stands for Consumer Price Index – All Urban Consumers.

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1 Table 6: Revenue-per-Piece⁴ vs. CPI-U⁵

Year	Revenue (000's)	Piece (000's)	Revenue/Piece	Rev/Pc Index	CPI Index
1995	\$ 1,874,876	9,287,048	\$ 0.202	100%	100%
1996	\$ 1,917,424	9,248,366	\$ 0.207	103%	103%
1997	\$ 1,964,605	9,464,357	\$ 0.208	103%	105%
1998	\$ 1,972,901	9,392,726	\$ 0.210	104%	107%
1999	\$ 2,017,696	9,380,373	\$ 0.215	107%	109%
2000	\$ 2,076,257	9,467,716	\$ 0.219	109%	113%
2001	\$ 2,106,875	9,198,266	\$ 0.229	113%	116%
2002	\$ 2,066,900	8,839,847	\$ 0.234	116%	118%

2
3
4 In summary, the Postal Service appreciates efforts to improve efficiency in
5 Periodical rate design. As we go forward in identifying the relevant cost-driving
6 characteristics that can be incorporated into the rate design, we must balance a number
7 of considerations, including the impact on customers. While we work with the diverse
8 group of customers to improve the Periodicals class, we believe it is premature to
9 determine the particular rate structure to be employed.

10

⁴ Source: USPS RPW data

⁵ Source: Bureau of Labor Statistics data

**POSTAL RATE COMMISSION
DOCKET NO. C2004-1**

I, Rachel Tang, hereby declare under penalty of perjury that:

The Rebuttal Testimony of Rachel Tang On Behalf Of The United States Postal Service, denominated USPS-RT-2, was prepared by me or under my direction;

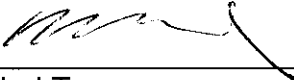
Were I to give this testimony orally before the Commission, it would be the same as the revised version filed with the Commission on October 27, 2004;

The interrogatory responses filed under my name (including the material provided in USPS-LR-1/C2004-1 and revised on October 28, 2004), and designated for inclusion in the record of this docket, were prepared by me or under my direction;

Were I to respond orally to the questions appearing in the interrogatories, my answers would be the same;

The response to Presiding Officer's Information Request No. 2 filed under my name was prepared by me or under my direction; and

Were I to respond orally to the questions appearing in Presiding Officer's Information Request No. 2, my answers would be the same as the revised version filed with the Commission on October 28, 2004.



Rachel Tang

11/2/2004

Date

RESPONSE OF POSTAL SERVICE WITNESS TANG
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

Item 1. Attachments 1 and 2 represent the data from Tables 2, 3 and 4 in USPS-RT-2. We have run the regression that appears in Attachment 2, using dummy variables for "Publication ID" (size) and "Density." Please run this regression replacing the dummy variables identified as "Small" and "Medium" with the natural log of the actual values for size, and replacing the dummy variable for "Low" density with the natural log of the actual values used to categorize publications as low or high density. Please provide the regression results within two weeks.

RESPONSE:

First of all, I would like to present a revised summary for the 55 observations (see, attached to this response, Table 1: Revised 55 Observations). Shaded area indicates revised values. Corrections have been made that alter some results, including the postage change percentages, though deviation from the previous data appears moderate. Appropriate revision to my rebuttal testimony will be filed separately.

Using the revised values, I reran the regression that appears in Table 2 (see Table 2: Regression with Dummy Variables – 55 Observations) and replicates Attachment 2 in POIR No.2.

I then replaced the dummy variables identified as "Small" and "Medium" with the natural log of the actual values for issue size. I also replaced the dummy variable for "Low" density with the natural log of the actual values previously used to categorize publications as low or high density, that is, the percentage of mail pieces paying the 5-digit and/or Carrier Route rates. With all the dummy variables replaced, I ran the regression once again, and the results are presented in Table 3 (see Table 3: Regression with Actual Values – 55 Observations). Please note that (1+Density) is used to avoid taking the natural log of zero.

RESPONSE OF POSTAL SERVICE WITNESS TANG
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

Although I have attempted to provide the type of results requested in Items 1-3, the POIR does not provide a sufficient basis to understand fully why those particular results were requested. No explanation was provided in terms of issues such as the model specification, the choice of variables, the functional form, or similar matters commonly associated with regression analysis. Without the appropriate context, I cannot endorse or comment on the methodology.

RESPONSE OF POSTAL SERVICE WITNESS TANG
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

Table 1: Revised 55 Observations

Number of Observation	Publication ID	Density	Editorial Content	Piece Weight	Postage per Piece	TW Postage per Piece	% Change
1	S1	Low	65%	0.276	0.301	0.503	67.18%
2	S2	Low	75%	0.275	0.286	0.424	47.98%
3	S3	Low	69%	0.181	0.325	0.429	32.01%
4	S4	Low	100%	0.357	0.266	0.345	29.55%
5	S5	Low	100%	2.639	0.767	0.989	28.86%
6	S6	Low	86%	1.221	0.491	0.553	12.53%
7	S7	Low	100%	0.107	0.244	0.273	12.00%
8	S8	Low	59%	0.195	0.304	0.315	3.52%
9	S9	Low	100%	0.197	0.337	0.341	1.27%
10	S10	Low	97%	0.110	0.229	0.230	0.55%
11	S11	High	68%	0.161	0.292	0.526	80.00%
12	S12	High	47%	0.190	0.222	0.335	50.80%
13	S13	High	60%	0.465	0.256	0.352	37.29%
14	S14	High	71%	0.405	0.255	0.338	32.64%
15	S15	High	97%	0.389	0.261	0.316	21.00%
16	S16	High	41%	0.282	0.231	0.260	12.51%
17	S17	High	96%	0.460	0.283	0.317	11.99%
18	S18	High	100%	0.075	0.214	0.234	9.35%
19	S19	High	75%	0.150	0.186	0.203	8.98%
20	S20	High	26%	1.903	0.647	0.674	4.10%
21	S21	High	35%	0.127	0.250	0.242	-3.18%
22	S22	High	90%	0.061	0.134	0.132	-1.38%
23	S23	High	42%	0.483	0.324	0.310	-4.26%
24	S24	High	33%	1.200	0.416	0.393	-5.46%
25	M1	Low	100%	0.452	0.283	0.350	23.66%
26	M2	Low	96%	0.383	0.274	0.311	13.29%
27	M3	Low	50%	0.696	0.446	0.501	12.36%
28	M4	Low	40%	0.529	0.406	0.414	2.04%
29	M5	Low	27%	1.996	0.933	0.911	-2.34%
30	M6	Low	45%	1.195	0.533	0.507	-4.86%
31	M7	Low	61%	0.649	0.309	0.272	-11.82%
32	M8	Low	50%	0.488	0.261	0.229	-12.44%
33	M9	Low	62%	0.418	0.198	0.153	-22.87%
34	M10	Low	57%	0.556	0.241	0.186	-22.65%
35	M11	High	85%	0.396	0.275	0.336	22.31%
36	M12	High	100%	0.574	0.268	0.307	14.63%
37	M13	High	62%	0.184	0.222	0.253	13.73%
38	M14	High	41%	0.980	0.473	0.506	7.04%
39	M15	High	51%	0.758	0.425	0.452	6.49%
40	M16	High	50%	0.418	0.309	0.327	5.73%
41	M17	High	50%	0.491	0.280	0.254	-9.28%
42	M18	High	61%	0.414	0.215	0.186	-13.26%
43	M19	High	51%	0.581	0.248	0.204	-17.78%
44	M20	High	58%	0.544	0.228	0.177	-22.26%
45	L1	Low	55%	0.389	0.330	0.334	1.44%
46	L2	High	85%	0.461	0.273	0.280	2.48%
47	L3	High	75%	0.470	0.271	0.255	-6.02%
48	L4	High	50%	0.410	0.242	0.217	-10.52%
49	L5	High	67%	0.278	0.179	0.160	-10.56%
50	L6	High	64%	0.417	0.210	0.180	-14.60%
51	L7	High	60%	1.481	0.479	0.399	-16.66%
52	L8	High	60%	0.591	0.239	0.209	-12.36%
53	L9	High	57%	0.531	0.235	0.188	-19.69%
54	L10	High	45%	0.896	0.312	0.253	-18.98%
55	L11	High	61%	0.427	0.199	0.154	-22.51%

RESPONSE OF POSTAL SERVICE WITNESS TANG TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

Table 2: Regression with Dummy Variables – 55 Observations

Regression Output:

Constant	0.3181
Std Error of Y Est	0.1466
R Squared	0.5013
# of Observations	55
Degrees of Freedom	48

	Small	Medium	Low	Ln (%Editorial)	Ln (Weight)	Ln (Postage)
X Coefficients	0.2094	0.0922	-0.0607	0.1763	-0.0986	0.3101
Std Err of Coef.	0.0645	0.0588	0.0497	0.0584	0.0493	0.1103
t-value	3.2474	1.5694	-1.2212	2.5784	-2.0018	2.8122

Ln (1+%Change)	Small	Medium	Low	Ln (%Editorial)	Ln (Weight)	Ln (Postage)	Standard Residual
0.5139	1.0000	0.0000	1.0000	-0.4320	-1.2883	-1.2013	2.6675
0.3919	1.0000	0.0000	1.0000	-0.2865	-1.2917	-1.2502	1.7064
0.2777	1.0000	0.0000	1.0000	-0.3694	-1.7101	-1.1228	0.4014
0.2589	1.0000	0.0000	1.0000	0.0000	-1.0313	-1.3224	0.7267
0.2536	1.0000	0.0000	1.0000	-0.0030	0.9702	-0.2647	-0.2526
0.1181	1.0000	0.0000	1.0000	-0.1543	0.1998	-0.7110	-0.5888
0.1133	1.0000	0.0000	1.0000	0.0000	-2.2387	-1.4119	-0.9876
0.0346	1.0000	0.0000	1.0000	-0.5265	-1.6344	-1.1913	-0.9496
0.0127	1.0000	0.0000	1.0000	0.0000	-1.6236	-1.0875	-2.0048
0.0054	1.0000	0.0000	1.0000	-0.0305	-2.2073	-1.4740	-1.5676
0.5878	1.0000	0.0000	0.0000	-0.3857	-1.8264	-1.2310	2.3866
0.4108	1.0000	0.0000	0.0000	-0.7546	-1.6607	-1.5046	2.3086
0.3169	1.0000	0.0000	0.0000	-0.5188	-0.7661	-1.3614	1.6457
0.2825	1.0000	0.0000	0.0000	-0.3420	-0.9038	-1.3668	1.0851
0.1907	1.0000	0.0000	0.0000	-0.0288	-0.9442	-1.3439	-0.0589
0.1179	1.0000	0.0000	0.0000	-0.8846	-1.2656	-1.4642	0.5462
0.1133	1.0000	0.0000	0.0000	-0.0367	-0.7765	-1.2623	-0.6722
0.0894	1.0000	0.0000	0.0000	0.0000	-2.5927	-1.5418	-1.5611
0.0860	1.0000	0.0000	0.0000	-0.2877	-1.8966	-1.6818	-0.4075
0.0402	1.0000	0.0000	0.0000	-1.3453	0.6433	-0.4349	-0.3752
-0.0323	1.0000	0.0000	0.0000	-1.0586	-2.0614	-1.3863	-1.0610
-0.0139	1.0000	0.0000	0.0000	-0.1059	-2.7924	-2.0087	-1.2682
-0.0435	1.0000	0.0000	0.0000	-0.8636	-0.7277	-1.1277	-1.0192
-0.0562	1.0000	0.0000	0.0000	-1.1180	0.1820	-0.8771	-0.6998
0.2124	0.0000	1.0000	1.0000	0.0000	-0.7947	-1.2618	1.2709
0.1248	0.0000	1.0000	1.0000	-0.0396	-0.9590	-1.2933	0.6409
0.1165	0.0000	1.0000	1.0000	-0.6931	-0.3621	-0.8068	0.7491
0.0202	0.0000	1.0000	1.0000	-0.9165	-0.6361	-0.9022	0.3557
-0.0237	0.0000	1.0000	1.0000	-1.3068	0.6913	-0.0693	-0.3859
-0.0498	0.0000	1.0000	1.0000	-0.7984	0.1782	-0.6299	-0.3314
-0.1258	0.0000	1.0000	1.0000	-0.5019	-0.4325	-1.1759	-0.4703
-0.1328	0.0000	1.0000	1.0000	-0.6931	-0.7174	-1.3422	-0.1071
-0.2597	0.0000	1.0000	1.0000	-0.4779	-0.8724	-1.6205	-0.7865
-0.2568	0.0000	1.0000	1.0000	-0.5626	-0.5865	-1.4231	-0.8962
0.2014	0.0000	1.0000	0.0000	-0.1662	-0.9274	-1.2910	0.9353
0.1365	0.0000	1.0000	0.0000	0.0000	-0.5557	-1.3165	0.5760
0.1286	0.0000	1.0000	0.0000	-0.4757	-1.6935	-1.5045	0.7355
0.0681	0.0000	1.0000	0.0000	-0.8809	-0.0202	-0.7496	0.3145
0.0629	0.0000	1.0000	0.0000	-0.6666	-0.2764	-0.8566	0.0610
0.0557	0.0000	1.0000	0.0000	-0.6976	-0.8718	-1.1747	0.3372
-0.0974	0.0000	1.0000	0.0000	-0.6931	-0.7121	-1.2735	-0.4406
-0.1422	0.0000	1.0000	0.0000	-0.4901	-0.8831	-1.5385	-0.5512
-0.1957	0.0000	1.0000	0.0000	-0.6686	-0.5428	-1.3954	-0.7889
-0.2518	0.0000	1.0000	0.0000	-0.5408	-0.6087	-1.4784	-1.2180
0.0143	0.0000	0.0000	1.0000	-0.5898	-0.9431	-1.1098	0.8099
0.0245	0.0000	0.0000	0.0000	-0.1574	-0.7744	-1.2976	0.4352
-0.0620	0.0000	0.0000	0.0000	-0.2935	-0.7550	-1.3052	0.0134
-0.1112	0.0000	0.0000	0.0000	-0.6931	-0.8916	-1.4181	0.3233
-0.1116	0.0000	0.0000	0.0000	-0.3965	-1.2800	-1.7216	0.3460
-0.1578	0.0000	0.0000	0.0000	-0.4439	-0.8747	-1.5583	-0.0050
-0.1823	0.0000	0.0000	0.0000	-0.5143	0.3928	-0.7368	-1.0309
-0.1319	0.0000	0.0000	0.0000	-0.5188	-0.5252	-1.4324	0.2448
-0.2193	0.0000	0.0000	0.0000	-0.5602	-0.6324	-1.4500	-0.3716
-0.2105	0.0000	0.0000	0.0000	-0.8068	-0.1103	-1.1656	-0.2592
-0.2551	0.0000	0.0000	0.0000	-0.4918	-0.8516	-1.6142	-0.5059

RESPONSE OF POSTAL SERVICE WITNESS TANG TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

Table 3: Regression with Actual Values – 55 Observations

Regression Output:

Constant	0.7526
Std Error of Y Est	0.1454
R Squared	0.4990
# of Observations	55
Degrees of Freedom	49
	Ln (Issue Size) Ln (1+Density)* Ln (%Editorial) Ln (Weight) Ln (Postage)
X Coefficients	-0.0378 0.1702 0.2004 -0.1095 0.3308
Std Err of Coef.	0.0106 0.1197 0.0679 0.0473 0.1068
t-value	-3.5689 1.4221 2.9513 -2.3171 3.0987

							Standard
Ln (1+% Change)	Ln (Issue Size)	Ln (1+Density)*	Ln (%Editorial)	Ln (Weight)	Ln (Postage)		Residual
0.5139	8.2204	0.2393	-0.4320	-1.2883	-1.2013		2.7006
0.3919	7.1713	0.0900	-0.2865	-1.2917	-1.2502		1.6207
0.2777	8.8716	0.2037	-0.3694	-1.7101	-1.1228		0.6053
0.1248	10.3722	0.2252	-0.0396	-0.9590	-1.2933		0.4085
0.2589	9.1931	0.0127	0.0000	-1.0313	-1.3224		1.2712
0.2536	8.8975	0.2222	-0.0030	0.9702	-0.2647		-0.0439
0.1181	8.4537	0.1522	-0.1543	0.1998	-0.7110		-0.3820
0.1133	8.5054	0.0320	0.0000	-2.2387	-1.4119		-0.7322
0.0346	8.7147	0.0921	-0.5265	-1.6344	-1.1913		-0.6046
0.0127	4.5841	0.0000	0.0000	-1.6236	-1.0875		-2.7776
0.0054	7.4413	0.2390	-0.0305	-2.2073	-1.4747		-1.8367
0.5878	5.9890	0.3030	-0.3857	-1.8291	-1.2305		2.1219
0.4108	5.7193	0.2820	-0.7546	-1.6607	-1.5046		2.1179
0.3169	7.5513	0.6131	-0.5188	-0.7661	-1.3614		1.5575
0.2825	6.7158	0.5906	-0.3420	-0.9038	-1.3668		0.7570
0.1907	7.2872	0.1924	-0.0288	-0.9453	-1.3439		0.1988
0.1179	7.7218	0.6399	-0.8846	-1.2656	-1.4642		0.5139
0.1133	6.2382	0.1631	-0.0202	-0.7765	-1.2609		-0.6872
0.0894	7.9039	0.3457	0.0000	-2.5927	-1.5400		-1.4286
0.0860	8.0881	0.5777	-0.2877	-1.8966	-1.6818		-0.3824
0.0402	5.2919	0.4797	-1.3453	0.6433	-0.4349		-0.7949
-0.0323	8.5588	0.3642	-1.0586	-2.0614	-1.3873		-0.5638
-0.0139	9.1220	0.6279	-0.1059	-2.7924	-2.0087		-1.0739
-0.0435	8.1309	0.4293	-0.8636	-0.7277	-1.1277		-0.6891
-0.0562	8.1286	0.5832	-1.1180	0.1820	-0.8774		-0.4808
0.2124	10.2592	0.2483	0.0000	-0.7947	-1.2618		0.9792
0.1165	11.0904	0.2350	-0.6931	-0.3621	-0.8068		0.7885
0.0202	8.1794	0.2541	-0.9165	-0.6361	-0.9022		-0.3900
-0.0237	10.7949	0.2395	-1.3068	0.6913	-0.0693		-0.3503
-0.0498	9.9932	0.1437	-0.7984	0.1782	-0.6299		-0.4422
-0.1258	11.3041	0.2611	-0.5019	-0.4325	-1.1759		-0.3855
-0.1328	10.0496	0.0789	-0.6931	-0.7174	-1.3422		-0.1058
-0.2597	9.8751	0.0325	-0.4779	-0.8724	-1.6205		-0.7822
-0.2568	9.8296	0.0108	-0.5626	-0.5865	-1.4231		-0.8698
0.2014	11.3456	0.4876	-0.1662	-0.9274	-1.2910		1.1075
0.1365	11.2458	0.5105	0.0000	-0.5557	-1.3165		0.6978
0.1286	11.2313	0.4407	-0.4757	-1.6935	-1.5045		0.9602
0.0681	11.2922	0.3595	-0.8809	-0.0202	-0.7496		0.7461
0.0629	11.2917	0.4433	-0.6666	-0.2764	-0.8566		0.3485
0.0557	10.4952	0.4026	-0.6976	-0.8718	-1.1747		0.4629
-0.0974	10.6676	0.5108	-0.6931	-0.7121	-1.2735		-0.3725
-0.1422	10.8825	0.6671	-0.4901	-0.8831	-1.5385		-0.6254
-0.1957	10.8569	0.6285	-0.6686	-0.5428	-1.3954		-0.7857
-0.2518	11.4030	0.6281	-0.5408	-0.6087	-1.4784		-1.0794
0.0143	11.6585	0.2607	-0.5898	-0.9431	-1.1098		0.2885
0.0245	12.6849	0.3487	-0.1574	-0.7743	-1.2976		0.4905
-0.0620	13.1410	0.6288	-0.2935	-0.7551	-1.3052		-0.1237
-0.1112	12.3359	0.6378	-0.6931	-0.8916	-1.4181		0.0305
-0.1116	13.0737	0.6603	-0.3965	-1.2800	-1.7216		0.1900
-0.1578	12.9377	0.6534	-0.4439	-0.8748	-1.5583		-0.1731
-0.1823	12.9395	0.5766	-0.5143	0.3928	-0.7368		-1.1126
-0.1319	13.4822	0.6345	-0.5188	-0.5252	-1.4324		0.2696
-0.2193	11.6791	0.5545	-0.5602	-0.6324	-1.4500		-0.7376
-0.2105	14.8436	0.6560	-0.8068	-0.1103	-1.1656		0.1548
-0.2551	13.3641	0.6829	-0.4918	-0.8516	-1.6142		-0.5742

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Item 2. The Commission believes that the above analysis could be improved by using a larger sample. If possible, please replicate the above analysis using 250 observations distributed by size and density in approximately the same manner. Please feel free to also provide alternative regression analyses.

RESPONSE:

As requested, I expanded the sample size to a total of 251 observations. A summary of these 251 observations, including the original 55 observations listed in my response to Item 1, is attached as Table 8 at the end of my response to the POIR. On this expanded sample, I repeated the regression exercise described in Item 1. Before discussing the regressions, however, it may be useful, for purposes of comparing the original sample with the larger sample, to present an overview table of estimated percentage postage changes for the larger sample (see below, Table 4: Overview of Estimated Postage Changes – 251 Publications), which is comparable to the table on page 4 of my testimony (Table 1: Overview of Estimated Postage Changes) for the original sample.

Table 4: Overview of Estimated Postage Changes – 251 Publications

	Sample Size		Postage Change (%)	
	Low Density	High Density	Low Density	High Density
Small	51	50	(15.87%) - 89.96%	(13.46%) - 85.77%
Medium	49	50	(22.87%) - 23.66%	(23.87%) - 22.38%
Large	1	50	1.44%	(36.37%) - 27.86%

Among the 101 small publications, 76 will face a postage increase ranging from 0.22 percent to 89.96 percent under the Time Warner Proposed rate structure and rates. Twenty-five publications will incur a moderate postage decrease between 0.36 percent and 15.87 percent.

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For the medium-size publications, the estimate postage changes are more evenly dispersed in terms of their magnitude as well as direction, which echo the findings presented in my rebuttal testimony. Among the 99 medium publications, 66 will face a postage increase ranging from 0.55 percent to 23.60 percent, while 33 will see a postage decrease between 0.26 percent and 23.87 percent.

Among the 51 large publications, 5 will face a postage increase ranging from 1.44 percent to 27.86 percent. Besides the 27.86 percent increase, which seems an extreme case, the estimated postage increase for the other four observations are all under 7 percent. Ninety percent of the large publications, that is, 46 publications, will see a postage decrease between 2.51 percent and 36.37 percent.

Turning to the regression requested in this item, the result of the first regression using dummy variables is listed in Table 5 (see Table 5: Regression Results with Dummy Variables – 251 Observations). With all the dummy variables replaced with actual values, I ran the regression again, and the results are presented in Table 6 (see Table 6: Regression Results with Actual Values – 251 Observations).

A detailed summary and workbook is included in USPS-LR-1/C2004-1, also filed today, under protective conditions.

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Table 5: Regression Results with Dummy Variables – 251 Observations

Regression Output:

Constant	0.2474					
Std Error of Y Est	0.1411					
R Squared	0.4144					
# of Observations	251					
Degrees of Freedom	244					
	Small	Medium	Low Density	Ln (%Editorial)	Ln (Weight)	Ln (Postage)
X Coefficients	0.1953	0.1193	-0.0492	0.1411	-0.0721	0.2704
Std Err of Coef.	0.0307	0.0276	0.0226	0.0291	0.0221	0.0526
t-value	6.3527	4.3287	-2.1747	4.8530	-3.2610	5.1457

Table 6: Regression Results with Actual Values – 251 Observations

Regression Output:

Constant	0.6702				
Std Error of Y Est	0.1403				
R Squared	0.4186				
# of Observations	251				
Degrees of Freedom	245				
	Ln (Issue Size)	Ln (1+Density)	Ln (%Editorial)	Ln (Weight)	Ln (Postage)
X Coefficients	-0.0359	0.1088	0.1439	-0.0596	0.2569
Std Err of Coef.	0.0052	0.0605	0.0296	0.0234	0.0578
t-value	-6.8833	1.8001	4.8656	-2.5476	4.4425

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Item 3. If possible, please augment the list of variables in either or both samples to include for each observation:

- a. The percentage of the mailing by zone;
- b. The percentage of the mailing that is palletized;
- c. The percentage of the mailing that is presorted to basic, 3-digit, 5-digit, and carrier-route; and
- d. The percentage of postage based on weight.

Please provide the data for the new variables and/or results of regression analyses performed in response to questions 1 and 2 but with the expanded set of variables.

RESPONSE:

Adding the variables listed above, I reran the regression once again. The results are presented in Table 7 (see Table 7: Regression Results of 251 Observations – Expanded Variables). A detailed summary and workbook is included in USPS-LR-1/C2004-1, also filed today, under protective conditions.

Table 7: Regression Results of 251 Observations – Expanded Variables

Regression Output:

Constant 1.32815
Std Error of Y Est 0.1098
R Squared 0.6631
of Observations 251
Degrees of Freedom 232

	Constant	LN(Issue Size)	LN(%Editorial)	LN(Weight)	LN(USPS Postage)	% DDU	% DSCF	% DADC	%ZONE 1&2	%ZONE 3	%ZONE 4	%ZONE 5	%ZONE 6	%ZONE 7	% PALLETIZED	% 3D	% 5D	% CR	Percentage of Weight Postage
X Coefficients	1.343127	-0.0153505	0.1018883	0.2335025	0.3765041	3.198788	-0.3354149	-0.2276248	-0.2330527	-0.3099465	-0.2504111	-0.1758096	-0.1231093	-0.2324587	-0.1136983	0.3923349	0.5328989	0.7172563	-1.77530
Std Err of Coef	0.1687055	0.0055594	0.0330551	0.0455361	0.0937357	3.527656	0.06262	0.1048232	0.0840434	0.1082319	0.0983108	0.0880925	0.0997682	0.1454826	0.0370478	0.0810392	0.0718689	0.111986	0.2749487
t-value	7.961	-2.761	3.076	5.128	4.017	0.907	-4.06	-2.172	-2.773	-2.664	-2.547	1.993	-1.234	-1.598	-3.069	8.428	7.415	5.984	-6.461

Table 8: Summary of 251 Observations

Number of Observation	Publication ID	Size	Density	Editorial %	Piece Weight	USPS Postage per Piece	TW Postage per Piece	% Change in Postage / pc
1	L1	Large	Low	55%	0.39	0.330	0.334	1.44%
2	L10	Large	High	45%	0.90	0.312	0.253	-18.98%
3	L11	Large	High	61%	0.43	0.199	0.154	-22.51%
4	L2	Large	High	85%	0.46	0.273	0.280	2.48%
5	L3	Large	High	75%	0.47	0.271	0.255	-6.02%
6	L4	Large	High	50%	0.41	0.242	0.217	-10.52%
7	L5	Large	High	67%	0.28	0.179	0.160	-10.56%
8	L6	Large	High	64%	0.42	0.210	0.180	-14.60%
9	L7	Large	High	60%	1.48	0.479	0.399	-16.66%
10	L8	Large	High	60%	0.59	0.239	0.209	-12.36%
11	L9	Large	High	57%	0.53	0.235	0.188	-19.69%
12	M1	Medium	Low	100%	0.45	0.283	0.350	23.66%
13	M10	Medium	Low	57%	0.56	0.241	0.186	-22.65%
14	M11	Medium	High	85%	0.40	0.275	0.336	22.31%
15	M12	Medium	High	100%	0.57	0.268	0.307	14.63%
16	M13	Medium	High	62%	0.18	0.222	0.253	13.73%
17	M14	Medium	High	41%	0.98	0.473	0.506	7.04%
18	M15	Medium	High	51%	0.76	0.425	0.452	6.49%
19	M16	Medium	High	50%	0.42	0.309	0.327	5.73%
20	M17	Medium	High	50%	0.49	0.280	0.254	-9.28%
21	M18	Medium	High	61%	0.41	0.215	0.186	-13.26%
22	M19	Medium	High	51%	0.58	0.248	0.204	-17.78%
23	M2	Medium	Low	96%	0.38	0.274	0.311	13.29%
24	M20	Medium	High	58%	0.54	0.228	0.177	-22.26%
25	M3	Medium	Low	50%	0.70	0.446	0.501	12.36%
26	M5	Medium	Low	27%	2.00	0.933	0.911	-2.34%
27	M6	Medium	Low	45%	1.20	0.533	0.507	-4.86%
28	M7	Medium	Low	61%	0.65	0.309	0.272	-11.82%
29	M8	Medium	Low	50%	0.49	0.261	0.229	-12.44%
30	M9	Medium	Low	62%	0.42	0.198	0.153	-22.87%
31	P1HL12	Large	High	50%	0.84	0.299	0.246	-17.57%
32	P1HL13	Large	High	100%	0.66	0.216	0.149	-30.78%
33	P1HL14	Large	High	64%	0.79	0.278	0.223	-19.66%
34	P1HL15	Large	High	49%	0.81	0.314	0.272	-13.61%
35	P1HL16	Large	High	60%	1.19	0.427	0.372	-12.89%
36	P1HL17	Large	High	55%	0.64	0.269	0.219	-18.76%
37	P1HL18	Large	High	45%	0.36	0.235	0.220	-6.62%
38	P1HL19	Large	High	50%	0.63	0.274	0.225	-17.81%
39	P1HL20	Large	High	54%	0.66	0.272	0.217	-20.08%
40	P1HL21	Large	High	51%	0.47	0.229	0.190	-16.76%
41	P1HL22	Large	High	100%	1.13	0.306	0.195	-36.37%
42	P1HL23	Large	High	44%	0.98	0.312	0.258	-17.31%
43	P1HL24	Large	High	72%	0.70	0.291	0.271	-6.81%
44	P1HL25	Large	High	64%	0.82	0.299	0.246	-17.58%
45	P1HL26	Large	High	100%	1.22	0.411	0.526	27.86%
46	P1HL27	Large	High	70%	0.91	0.330	0.274	-16.90%
47	P1HL28	Large	High	51%	0.58	0.277	0.244	-11.97%
48	P1HL29	Large	High	55%	0.54	0.241	0.197	-18.56%
49	P1HL30	Large	High	50%	0.44	0.234	0.203	-13.25%
50	P1HL31	Large	High	74%	0.19	0.167	0.158	-5.28%
51	P1HL32	Large	High	93%	0.25	0.162	0.133	-17.71%
52	P1HL33	Large	High	62%	0.25	0.123	0.095	-22.87%
53	P1HL34	Large	High	77%	0.23	0.141	0.120	-14.79%
54	P1HL35	Large	High	100%	0.49	0.193	0.148	-23.02%
55	P1HL36	Large	High	40%	0.94	0.346	0.307	-11.33%

56	P1HL37	Large	High	78%	0.48	0.273	0.247	-9.51%
57	P1HL38	Large	High	59%	0.47	0.222	0.193	-13.03%
58	P1HL39	Large	High	70%	0.83	0.319	0.265	-16.88%
59	P1HL40	Large	High	51%	0.51	0.233	0.205	-11.91%
60	P1HL41	Large	High	71%	0.31	0.221	0.193	-12.91%
61	P1HL42	Large	High	43%	0.59	0.299	0.273	-8.66%
62	P1HL43	Large	High	62%	0.19	0.221	0.216	-2.51%
63	P1HL44	Large	High	50%	0.46	0.235	0.201	-14.44%
64	P1HL45	Large	High	60%	0.37	0.223	0.197	-11.62%
65	P1HL46	Large	High	86%	0.23	0.164	0.145	-11.47%
66	P1HL47	Large	High	55%	0.66	0.256	0.202	-20.89%
67	P1HL48	Large	High	98%	0.23	0.121	0.080	-33.48%
68	P1HL49	Large	High	73%	0.20	0.226	0.233	2.81%
69	P1HL50	Large	High	50%	0.47	0.243	0.218	-10.21%
70	P1HL51	Large	High	57%	0.33	0.253	0.269	6.23%
71	P1HM100	Medium	High	86%	2.31	0.629	0.633	0.55%
72	P1HM61	Medium	High	41%	0.78	0.298	0.251	-15.94%
73	P1HM62	Medium	High	94%	0.23	0.218	0.227	4.14%
74	P1HM63	Medium	High	50%	0.92	0.478	0.507	5.99%
75	P1HM64	Medium	High	80%	0.79	0.340	0.343	1.05%
76	P1HM65	Medium	High	100%	0.09	0.202	0.225	11.54%
77	P1HM66	Medium	High	88%	0.39	0.269	0.292	8.84%
78	P1HM67	Medium	High	85%	0.34	0.234	0.232	-0.69%
79	P1HM68	Medium	High	70%	0.61	0.352	0.413	17.42%
80	P1HM69	Medium	High	76%	0.31	0.261	0.292	11.80%
81	P1HM70	Medium	High	47%	0.89	0.411	0.373	-9.21%
82	P1HM71	Medium	High	37%	2.29	1.014	1.119	10.30%
83	P1HM72	Medium	High	42%	0.36	0.345	0.362	4.68%
84	P1HM73	Medium	High	57%	0.47	0.210	0.183	-12.88%
85	P1HM74	Medium	High	59%	0.51	0.236	0.180	-23.87%
86	P1HM75	Medium	High	100%	1.72	0.489	0.558	14.12%
87	P1HM76	Medium	High	50%	0.45	0.256	0.227	-11.32%
88	P1HM77	Medium	High	54%	0.58	0.314	0.308	-1.78%
89	P1HM78	Medium	High	82%	0.62	0.352	0.413	17.47%
90	P1HM79	Medium	High	51%	0.40	0.244	0.234	-4.18%
91	P1HM80	Medium	High	72%	0.24	0.231	0.254	10.23%
92	P1HM81	Medium	High	95%	0.24	0.211	0.216	2.16%
93	P1HM82	Medium	High	41%	0.78	0.308	0.261	-15.33%
94	P1HM83	Medium	High	61%	0.25	0.206	0.185	-10.09%
95	P1HM84	Medium	High	92%	0.36	0.256	0.267	4.33%
96	P1HM85	Medium	High	57%	0.32	0.342	0.387	12.94%
97	P1HM86	Medium	High	63%	0.25	0.261	0.274	5.03%
98	P1HM87	Medium	High	61%	0.50	0.344	0.412	19.73%
99	P1HM88	Medium	High	51%	0.58	0.241	0.195	-19.11%
100	P1HM89	Medium	High	49%	0.36	0.324	0.350	7.96%
101	P1HM90	Medium	High	100%	0.38	0.242	0.296	22.38%
102	P1HM91	Medium	High	60%	0.41	0.295	0.299	1.43%
103	P1HM92	Medium	High	58%	0.57	0.261	0.217	-17.00%
104	P1HM93	Medium	High	54%	0.57	0.259	0.205	-20.87%
105	P1HM94	Medium	High	63%	0.25	0.236	0.229	-2.84%

106	P1HM95	Medium	High	50%	0.45	0.215	0.181	-15.88%
107	P1HM96	Medium	High	57%	0.34	0.269	0.280	4.12%
108	P1HM97	Medium	High	50%	0.50	0.266	0.234	-12.06%
109	P1HM98	Medium	High	78%	1.11	0.434	0.489	12.65%
110	P1HM99	Medium	High	100%	0.20	0.194	0.198	2.25%
111	P1LM21	Medium	Low	65%	0.79	0.396	0.398	0.74%
112	P1LM22	Medium	Low	45%	0.50	0.402	0.416	3.42%
113	P1LM23	Medium	Low	57%	0.79	0.424	0.435	2.42%
114	P1LM24	Medium	Low	95%	0.15	0.238	0.284	19.21%
115	P1LM25	Medium	Low	26%	0.97	0.683	0.724	6.04%
116	P1LM26	Medium	Low	100%	0.32	0.290	0.305	5.22%
117	P1LM27	Medium	Low	51%	0.31	0.347	0.390	12.45%
118	P1LM28	Medium	Low	59%	0.72	0.391	0.395	0.91%
119	P1LM29	Medium	Low	95%	0.15	0.238	0.284	19.21%
120	P1LM30	Medium	Low	44%	0.43	0.291	0.290	-0.26%
121	P1LM31	Medium	Low	78%	0.24	0.287	0.326	13.88%
122	P1LM32	Medium	Low	100%	0.53	0.299	0.346	15.78%
123	P1LM33	Medium	Low	100%	1.13	0.490	0.530	8.18%
124	P1LM34	Medium	Low	53%	0.64	0.427	0.469	9.93%
125	P1LM35	Medium	Low	50%	0.37	0.342	0.356	4.34%
126	P1LM36	Medium	Low	60%	0.33	0.354	0.383	8.18%
127	P1LM37	Medium	Low	68%	0.48	0.352	0.369	4.77%
128	P1LM38	Medium	Low	95%	0.15	0.238	0.284	19.21%
129	P1LM39	Medium	Low	75%	0.62	0.438	0.451	2.86%
130	P1LM40	Medium	Low	75%	0.24	0.289	0.298	3.25%
131	P1LM41	Medium	Low	80%	0.24	0.280	0.315	12.63%
132	P1LM42	Medium	Low	60%	0.35	0.224	0.199	-11.02%
133	P1LM43	Medium	Low	61%	0.49	0.376	0.400	6.53%
134	P1LM44	Medium	Low	52%	0.60	0.286	0.247	-13.62%
135	P1LM45	Medium	Low	35%	0.96	0.403	0.367	-8.93%
136	P1LM46	Medium	Low	50%	0.31	0.325	0.355	9.03%
137	P1LM47	Medium	Low	81%	0.30	0.212	0.209	-1.81%
138	P1LM48	Medium	Low	89%	0.31	0.273	0.295	8.27%
139	P1LM49	Medium	Low	62%	0.60	0.436	0.427	-2.07%
140	P1LM50	Medium	Low	77%	0.63	0.358	0.386	8.04%
141	P1LM51	Medium	Low	47%	0.31	0.341	0.355	4.06%
142	P1LM52	Medium	Low	52%	0.53	0.408	0.438	7.28%
143	P1LM53	Medium	Low	70%	0.41	0.319	0.336	5.43%
144	P1LM54	Medium	Low	95%	0.15	0.238	0.284	19.21%
145	P1LM55	Medium	Low	50%	0.40	0.350	0.365	4.49%
146	P1LM56	Medium	Low	81%	0.24	0.261	0.283	8.48%
147	P1LM57	Medium	Low	41%	0.45	0.424	0.483	13.80%
148	P1LM58	Medium	Low	91%	0.13	0.222	0.264	18.75%
149	P1LM59	Medium	Low	47%	0.44	0.377	0.388	2.97%
150	P1LM60	Medium	Low	100%	0.44	0.333	0.331	-0.43%
151	M4	Medium	Low	40%	0.53	0.406	0.414	2.04%
152	S1	Small	Low	65%	0.28	0.301	0.503	67.18%
153	S10	Small	Low	97%	0.11	0.229	0.230	0.55%
154	S11	Small	High	68%	0.16	0.292	0.526	80.00%
155	S12	Small	High	47%	0.19	0.222	0.335	50.80%

156	S13	Small	High	60%	0.46	0.256	0.352	37.29%
157	S14	Small	High	71%	0.41	0.255	0.338	32.64%
158	S15	Small	Low	97%	0.39	0.261	0.316	21.00%
159	S16	Small	High	41%	0.28	0.231	0.260	12.51%
160	S17	Small	Low	98%	0.46	0.283	0.317	11.99%
161	S18	Small	High	100%	0.07	0.214	0.234	9.35%
162	S19	Small	High	75%	0.15	0.186	0.203	8.98%
163	S2	Small	Low	75%	0.27	0.286	0.424	47.98%
164	S20	Small	High	26%	1.90	0.647	0.674	4.10%
165	S21	Small	High	35%	0.13	0.250	0.242	-3.18%
166	S22	Small	High	90%	0.06	0.134	0.132	-1.38%
167	S23	Small	High	42%	0.48	0.324	0.310	-4.26%
168	S24	Small	High	33%	1.20	0.416	0.393	-5.46%
169	S3	Small	Low	69%	0.18	0.325	0.429	32.01%
170	S4	Small	Low	100%	0.36	0.266	0.345	29.55%
171	S5	Small	Low	100%	2.64	0.767	0.989	28.86%
172	S6	Small	Low	86%	1.22	0.491	0.553	12.53%
173	S7	Small	Low	100%	0.11	0.244	0.273	12.00%
174	S8	Small	Low	59%	0.20	0.304	0.315	3.52%
175	S9	Small	Low	100%	0.20	0.337	0.341	1.27%
176	QHS25	Small	High	44%	0.20	0.173	0.172	-0.36%
177	QHS26	Small	High	100%	0.10	0.206	0.181	-12.19%
178	QHS27	Small	High	79%	0.24	0.264	0.297	12.50%
179	QHS28	Small	High	65%	0.26	0.260	0.380	45.94%
180	QHS29	Small	High	94%	0.25	0.210	0.195	-7.00%
181	QHS30	Small	High	59%	0.20	0.229	0.205	-10.40%
182	QHS31	Small	High	99%	0.77	0.326	0.322	-1.26%
183	QHS32	Small	High	83%	1.87	0.631	0.693	9.93%
184	QHS33	Small	High	26%	0.35	0.334	0.416	24.53%
185	QHS34	Small	High	100%	0.55	0.291	0.315	8.23%
186	QHS35	Small	High	42%	0.30	0.203	0.185	-8.98%
187	QHS36	Small	High	100%	0.06	0.164	0.152	-7.76%
188	QHS37	Small	High	82%	0.26	0.248	0.325	31.09%
189	QHS38	Small	High	43%	0.38	0.328	0.533	62.71%
190	QHS39	Small	High	28%	0.13	0.225	0.240	6.92%
191	QHS40	Small	High	81%	0.16	0.236	0.351	48.78%
192	QHS41	Small	High	100%	0.25	0.262	0.331	26.52%
193	QHS42	Small	High	66%	0.53	0.340	0.377	10.81%
194	QHS43	Small	High	100%	1.55	0.542	0.611	12.67%
195	QHS44	Small	High	61%	0.10	0.215	0.230	7.15%
196	QHS45	Small	High	100%	0.57	0.323	0.599	85.77%
197	QHS46	Small	High	100%	0.64	0.346	0.527	52.11%
198	QHS47	Small	High	70%	0.26	0.261	0.290	10.89%
199	QHS48	Small	High	99%	0.67	0.303	0.341	12.67%
200	QHS49	Small	High	63%	0.28	0.223	0.231	3.48%
201	QHS50	Small	High	100%	0.32	0.240	0.230	-4.01%
202	QHS51	Small	High	26%	1.14	0.604	0.753	24.65%
203	QHS52	Small	High	100%	0.91	0.409	0.636	55.45%
204	QHS53	Small	High	100%	0.52	0.268	0.295	10.23%
205	QHS54	Small	High	100%	0.18	0.197	0.194	-1.31%
206	QHS55	Small	High	100%	0.08	0.168	0.175	4.30%

207	QHS56	Small	High	71%	0.27	0.230	0.247	6.96%
208	QHS57	Small	High	50%	0.15	0.227	0.259	14.19%
209	QHS58	Small	High	100%	0.46	0.252	0.253	0.22%
210	QHS59	Small	High	76%	0.31	0.192	0.166	-13.46%
211	QHS60	Small	High	72%	0.98	0.476	0.705	48.08%
212	QHS61	Small	High	100%	2.64	0.663	0.889	34.07%
213	QHS62	Small	High	64%	0.37	0.278	0.489	75.71%
214	QHS63	Small	Low	39%	0.71	0.508	0.527	3.76%
215	QHS64	Small	Low	92%	0.63	0.437	0.428	-2.06%
216	QHS65	Small	Low	99%	0.95	0.390	0.378	-3.15%
217	QHS66	Small	Low	80%	0.17	0.298	0.339	13.83%
218	QHS67	Small	Low	87%	0.46	0.317	0.363	14.25%
219	QHS68	Small	Low	76%	0.13	0.339	0.297	-12.62%
220	QHS69	Small	Low	34%	0.29	0.345	0.356	3.25%
221	QHS70	Small	Low	75%	0.12	0.347	0.292	-15.87%
222	QHS71	Small	Low	44%	0.08	0.372	0.314	-15.64%
223	QHS72	Small	Low	40%	1.73	0.842	0.852	1.13%
224	QHS73	Small	Low	100%	0.23	0.268	0.289	7.94%
225	QHS74	Small	Low	84%	0.59	0.340	0.367	7.70%
226	QHS75	Small	Low	77%	0.45	0.342	0.375	9.54%
227	QHS76	Small	Low	58%	0.33	0.396	0.526	32.78%
228	QHS77	Small	Low	80%	0.19	0.251	0.295	17.33%
229	QHS78	Small	Low	99%	1.25	0.439	0.571	30.01%
230	QHS79	Small	Low	28%	0.12	0.322	0.343	6.70%
231	QHS80	Small	Low	66%	0.22	0.308	0.321	4.44%
232	QHS81	Small	Low	100%	0.56	0.381	0.606	59.02%
233	QHS82	Small	Low	70%	0.13	0.349	0.311	-10.89%
234	QHS83	Small	Low	100%	0.46	0.311	0.346	11.43%
235	QHS84	Small	Low	56%	0.49	0.356	0.361	1.30%
236	QHS85	Small	Low	43%	0.63	0.440	0.397	-9.84%
237	QHS86	Small	Low	95%	0.15	0.301	0.281	-6.35%
238	QHS87	Small	Low	83%	0.11	0.338	0.289	-14.62%
239	QHS88	Small	Low	50%	0.65	0.429	0.449	4.72%
240	QHS89	Small	Low	47%	0.35	0.407	0.370	-9.15%
241	QHS90	Small	Low	63%	0.56	0.391	0.426	9.03%
242	QHS91	Small	Low	71%	0.37	0.367	0.545	48.70%
243	QHS92	Small	Low	54%	0.23	0.370	0.425	14.76%
244	QHS93	Small	Low	100%	0.24	0.297	0.564	89.96%
245	QHS94	Small	Low	46%	0.39	0.356	0.371	4.19%
246	QHS95	Small	Low	100%	1.99	0.660	0.939	42.27%
247	QHS96	Small	Low	100%	0.66	0.312	0.361	15.76%
248	QHS97	Small	Low	66%	0.27	0.305	0.331	8.52%
249	QHS98	Small	Low	55%	1.02	0.503	0.688	36.61%
250	QHS99	Small	Low	67%	0.33	0.338	0.327	-3.19%
251	QHS100	Small	Low	72%	0.08	0.279	0.407	46.11%

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TW et al/USPS-2 Witnesses Crews (NNA-T-2) and Heath (NNA-T-1) have described instances in which newspapers that mail a few pieces to distant (out of state) locations are allowed, by local arrangement, to enter these pieces without the use of sacks. Crews reports the case of the Atchison County Mail, which is allowed to enter its small number of out-of-state copies in tubs. He indicates that since this practice started there have been many fewer complaints about slow service. Heath describes experiments where "newspapers may place small bundles or even unbundled loose newspapers prepared in proper sortation" in plastic tubs, and states that the tubs "go right to FSM1000 flat-sorting machines." He also refers to instances where bundles of newspapers are placed in APC's or hampers at the DDU loading dock, from where the APC's or hampers then are taken upstream to an SCF/ADC.

Please provide comments on these arrangements by a knowledgeable official. In particular, please address the following.

- a. Is the Postal Service aware that arrangements of the type described above are made for newspapers entered in some locations?
- b. How widespread are these practices today?
- c. When newspapers destined to distant locations are placed in tubs in the manner described by Crews and Heath, will the tubs, when they arrive at the processing plant, be taken to a bundle sorting operation where any bundles with ADC or finer presort can be separated and sent to their proper destination? Or will the entire contents of the tubs be "prepped" directly for outgoing primary flats sortation? Will pieces and bundles of newspapers entered in this manner typically be intermingled with First Class flats, or will they be kept separate as Periodicals? Please explain and indicate the degree to which practices differ in different locations.
- d. When newspaper bundles to distant locations are entered at the DU and placed in APC's or hampers which then are taken to the processing plant, as described by Heath, what is the sequence of operations that will be performed on this mail at the plant? Will bundles be sorted and those with presort to an ADC or finer sent to their proper destination? Or will all pieces be prepped for outgoing primary flats sortation? Will pieces and bundles entered in this manner typically be intermingled with First Class flats, or will they be kept separate as Periodicals? Please explain and indicate the degree to which practices differ in different locations.
- e. What is the Postal Service's view of the service consequences of the types of arrangements described above? If, as comments by Crews and Heath appear to indicate, service complaints become less frequent when such practices are established, please discuss all reasons why it may be so. Please include in your response a comparison of the different transportation and processing steps performed when flats to distant locations are entered at a DU in low-volume "skin sacks" and when they are entered in tubs or rolling containers.
- f. What is the Postal Service's view of the cost consequences of the types of

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arrangements described above? Please include in your response a comparison of the different transportation and processing steps performed when flats to distant locations are entered at a DU in low-volume "skin sacks" and when they are entered in tubs or rolling containers.

RESPONSE:

- a. Yes.
- b. We are not aware of any data on these practices.
- c. In normal practice, bundles would be culled and taken to a bundle sorting operation. Single pieces would go to a piece sorting operation for flats. Periodicals would be kept separate from First-Class flats. We are not aware of any data concerning deviations from normal practice under the circumstances described.
- d. Mail in APCs or hampers would be treated in the same manner as described in response to part c.
- e. Some portion of the decline in service complaints may be due to the mailer's perception that they are already getting special treatment. To the extent that the decline in complaints reflects a real improvement in service, a decline in bundle breakage would be the primary explanation. Mailer prepared bundles in sacks are notoriously subject to breakage with damage to some of the individual pieces resulting in delays while the mail is prepared for processing and damage repaired.
- f. As described, these arrangements are entered into voluntarily by local management when the unique circumstances of mail destinations, entry time, available transportation, etc., make the arrangements mutually beneficial. Under these circumstances, some

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reduction in costs would be expected, but the very uniqueness of the arrangements makes further generalization impossible.

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TW et al./USPS-RT1-2 For each MODS operation for which volume and workhour data are recorded under the MODS system, please provide, in Excel spreadsheet form, the total number of FHP, TPH and workhours for FY2003. If available, please provide similar information for FY2004, or alternatively any available year-to-date FY2004 information.

RESPONSE:

Although the Postal Service has objected to this question, it has agreed to provide certain information without waiving its objection. By informal agreement, the scope of this question has been limited to MODS operations in which significant portions of Periodicals volume are likely to be handled. FY 2003 data for those operations, comparable to similar data presented in the last omnibus rate case, are attached. No comparable data exist for FY 2004.

MODS Productivities for 2003
Excluding Top and Bottom 1% Productivity Ratios Over All APs
TPF and TPH are in Thousands

Group	Description	Shape	Number of					
			Observations	Total TPF	Total TPH	Total Hours	TPF/Hour	TPH/TPF
1	Flats VCS Keying	Flats	373	278,793	278,793	265,598	1,050	1.000
2	AFSM100 Out Primary	Flats	2,754	3,966,671	3,690,264	2,114,127	1,876	0.930
3	AFSM100 Out Secondary	Flats	1,274	530,067	491,834	212,793	2,491	0.928
4	AFSM100 In MMP	Flats	1,224	4,081,448	3,813,504	2,313,724	1,764	0.934
5	AFSM100 In SCF	Flats	2,155	4,023,182	3,791,084	2,314,932	1,738	0.942
6	AFSM100 In Primary	Flats	718	1,047,350	981,917	576,788	1,816	0.938
7	AFSM100 In Secondary	Flats	2,840	14,199,423	13,175,608	7,413,888	1,915	0.928
8	FSM881 Key Out Primary	Flats	212	35,188	34,854	49,834	706	0.991
9	FSM881 Key Out Secondary	Flats	87	3,251	3,221	4,077	797	0.991
10	FSM881 Key In MMP	Flats	19	4,222	4,189	6,196	681	0.992
11	FSM881 Key In SCF	Flats	250	49,783	49,275	67,561	737	0.990
12	FSM881 Key In Primary	Flats	36	11,547	11,382	19,994	578	0.986
13	FSM881 Key In Secondary	Flats	233	23,207	22,989	37,985	611	0.991
14	FSM881 OCR/BCR Out Primary	Flats	152	19,706	15,460	26,957	731	0.785
15	FSM881 OCR/BCR Out Secondary	Flats	43	1,407	1,171	1,646	855	0.832
16	FSM881 OCR/BCR In MMP	Flats	31	21,755	18,865	24,398	892	0.867
17	FSM881 OCR/BCR In SCF	Flats	314	116,145	101,611	178,345	651	0.875
18	FSM881 OCR/BCR In Primary	Flats	36	4,554	3,913	7,693	592	0.859
19	FSM881 OCR/BCR In Secondary	Flats	423	200,260	175,578	228,400	877	0.877
20	FSM1000 Key Out Primary	Flats	2,446	887,595	843,235	1,921,907	462	0.950
21	FSM1000 Key Out Secondary	Flats	1,326	162,609	154,050	249,932	651	0.947
22	FSM1000 Key In MMP	Flats	1,051	759,945	722,257	1,787,706	425	0.950
23	FSM1000 Key In SCF	Flats	2,218	1,197,089	1,130,148	2,083,407	575	0.944
24	FSM1000 Key In Primary	Flats	595	254,522	244,131	474,110	537	0.959
25	FSM1000 Key In Secondary	Flats	1,383	581,858	529,848	552,092	1,054	0.911
26	FSM1000 BCR Out Primary	Flats	16	521	423	510	1,022	0.813
27	FSM1000 BCR Out Secondary	Flats	3	31	24	4	7,625	0.790
28	FSM1000 BCR In MMP	Flats	13	712	583	765	931	0.819
29	FSM1000 BCR In SCF	Flats	49	6,833	5,963	4,842	1,411	0.873
30	FSM1000 BCR In Primary	Flats	3	77	61	700	110	0.785
31	FSM1000 BCR In Secondary	Flats	78	23,532	21,299	18,843	1,249	0.905
32	Manual Out Primary	Flats	2,476	236,592	236,592	536,168	441	1.000
33	Manual Out Secondary	Flats	1,348	55,817	55,817	156,228	357	1.000
34	Manual In MMP	Flats	792	121,422	121,422	346,926	350	1.000
35	Manual In SCF	Flats	2,994	667,299	667,299	1,380,030	484	1.000
36	Manual In Primary	Flats	1,766	285,270	285,270	792,712	360	1.000
37	Manual In Secondary	Flats	3,330	1,845,716	1,845,716	4,533,971	407	1.000
38	SPBS Outgoing	Parcels	1,310	789,255	778,443	2,658,740	297	0.986
39	SPBS Incoming	Parcels	1,995	2,282,866	2,255,590	8,718,966	262	0.988

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TW et al./USPS-RT1-3 At pages 8-9 of your testimony, you state that LR-I-332 “was not created to support a grid rate analysis,” and you attempt to link the development of LR-I-332 to the Postal Service’s response, in R2000-1, to POIR 4, filed on February 25, 2000, and to PRC Order No. 1289, issued on March 28, 2000.

- a. According to the Postal Service’s records, on what date was Christensen Associates authorized to start development of the model that eventually was filed as LR-I-332?
- b. According to the Postal Service’s records, was there a meeting on February 10, 2000 at USPS headquarters, between representatives of the Postal Service, Christensen Associates, and the Periodicals industry to discuss the development of the model that eventually was filed as LR-I-332?

RESPONSE:

- a. According to Christensen Associates records, February 15, 2000.
- b. According to Christensen Associates records, yes.

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TW et al./USPS-RT1-11 Has the Postal Service developed estimates of per-bundle, per-sack and per-pallet costs that are more recent than those presented in LR-I-332? If yes, please describe the study or studies in which such estimates were developed. Please also describe the parameters by which the costs were disaggregated, e.g., by presort, entry point, class of mail, etc. Please provide the unit costs obtained from any such studies, as well as all supporting data.

RESPONSE:

No more recent study of these subjects has been completed, and hence no estimates have been finalized.